



# Performance and Accountability Report

Fiscal Year 2012



U.S. Customs and  
Border Protection



# About This Report

## America's Frontline

We guard the boundaries of freedom and stand between the good citizens of our Nation and those that want to do us harm.

## About This Report

U.S. Customs and Border Protection (CBP) Fiscal Year (FY) 2012 Performance and Accountability Report (PAR) presents a comprehensive report that combines CBP's Annual Performance Report with its audited financial statements, assurances on internal control, accountability reporting and agency assessments. CBP's PAR provides program, financial, and performance information that enables Congress and the public to assess the performance of the agency as it relates to the CBP mission.

The CBP PAR discusses the agency's strategic goals and objectives and provides a comparison of agency performance targets to actual performance results. The CBP PAR satisfies the reporting requirements of the Reports Consolidation Act of 2000 (Pub. L. No. 106-531), Government Performance and Results Modernization Act (GPRMA) of 2010, Chief Financial Officers Act of 1990 (Public Law No. 101-576), Office of Management and Budget (OMB) Circular No. A-136, **Financial Reporting Requirement**, dated August 3, 2012, and other financial management statutes and reports.

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

For FY 2012, CBP will produce its Performance and Accountability Report and the Summary of Performance and Financial Information.

When published, both reports will be located on our public website: [www.cbp.gov](http://www.cbp.gov)

### **For more information, contact:**

U.S. Customs and Border Protection  
Office of Administration  
1331 Pennsylvania Avenue, NW, Suite 950  
Washington, DC 20229-1103

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# Deputy Commissioner's Message



I am pleased to present the Fiscal Year (FY) 2012 Performance and Accountability Report (PAR) for U.S. Customs and Border Protection (CBP).

CBP is responsible for managing, securing, and controlling our Nation's borders while facilitating the legitimate international travel and trade that is so vital to our Nation's economy. Our priority mission within this broad area of responsibility is to prevent terrorists and terrorist weapons from entering the United States. As we execute our mission we seek to adhere to the highest standards of fiscal discipline and accountability.

We continually update and adjust CBP's programs to enhance the overall efficiency of how we operate in the ever-changing global environment. CBP has built a multi-layered approach for screening and identifying potential travelers to the United States who may pose a threat to the homeland and we will continue to use all of the means within our authority to protect the Nation and its citizens.

In FY 2012, CBP continued to respond to illegal cross-border traffic through targeted operations, enhanced partnerships and an effective deployment of personnel, technology, and infrastructure along the border, while facilitating legitimate trade and travel. Over the last four years, CBP has focused on reducing barriers for fast, efficient, and secure travel to and from the United States. This year, CBP officers inspected 351 million travelers, processed over 30 million trade entries, and apprehended 364,768 illegal aliens attempting to cross the border.

Beginning in FY 2012, CBP implemented the Planning, Programming, Budgeting, and Accountability (PPBA) strategic framework to manage its financial and personnel resources. The PPBA process is a disciplined approach that ensures the Agency's vision, goals, and objectives are clearly articulated; programs and activities are aligned to the goals and objective; and resources are appropriately allocated to achieve the desired goals and objectives. This process provides the opportunity to assess our strategic direction, accommodate new trends, adapt to challenges inside and outside CBP, and adjust our corporate priorities to ensure sustained progress toward our strategic goals.

This year, I am proud to report that as a result of its FY 2012 Financial Statement Audit, CBP received its seventh unqualified opinion on its full set of financial statements. This outstanding accomplishment attests to CBP's continued commitment to fiscal discipline and accountability.

CBP is also committed to sound stewardship of federal dollars and transparency of financial and performance information. In FY 2012, CBP collected more than \$ 39 billion in revenue. The FY 2012 PAR demonstrates this commitment through reliable and complete financial and performance information. It also addresses CBP's compliance with financial management requirements and identifies areas for improvement. For example, CBP's financial management systems do not fully comply with federal financial management systems requirements and the U.S. Government Standard General Ledger at the transaction level; we have made financial system modernization a priority.

# Deputy Commissioner's Message

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

CBP is committed to remediating the deficiencies identified in the PAR and the corresponding independent auditor's report and has put in place timetables for corrective action to ensure future compliance. As a result of these assessments, one material weakness, three instances of nonconformance, and three deficiencies were identified.

I am proud to be leading an organization of men and women who are truly dedicated to the CBP mission and to the greater good of helping to secure our homeland and its citizens. The goal of our financial reporting remains to provide timely, reliable, and useful financial and performance information to the U.S. Congress and the American public, and to enable managers across CBP to make sound business decisions that further the critical agency mission.



David V. Aguilar, Deputy Commissioner  
U.S. Customs and Border Protection

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# Management's Discussion and Analysis

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

# Overview of CBP

## Mission

We are the guardians of our Nation's borders. We are America's frontline. We safeguard the American homeland at and beyond our borders. We protect the American public against terrorists and the instrument of terror. We steadfastly enforce the laws of the United States while fostering our Nation's economic security through lawful international trade and travel. We serve the American public with vigilance, integrity, and professionalism.

CBP's 60,668 employees manage, control, and protect the Nation's borders at, and between, the official ports of entry. CBP is responsible for protecting more than 5,000 miles of border with Canada, 1,900 miles of border with Mexico, and 95,000 miles of shoreline.

## Core Values

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

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

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

## Fiscal Year 2012 Statistical Highlights

- Ports of entry: 329
- Pre-clearance locations: 15
- Border Patrol sectors: 20
- Air units: 46 (1 Training location and 3 Radar/Communications locations)
- Marine units: 71 (2 Training locations and 1 Maintenance location)
- Trade entries processed: 30.4 million
- Total revenue: \$39.4 billion (includes custodial and entity revenue)
- Illegal narcotics seized: 2.8 million pounds (represents narcotics held by CBP until disposal or destruction)
- Illegal alien apprehensions between the ports of entry: 364,768

# Overview of CBP

- Inadmissible aliens interdicted at the ports of entry: 195,865
- Pedestrians and passengers processed: 351 million
- Conveyances processed: over 107 million
- Aircraft passengers processed: over 98 million
- Prohibited plant and animal materials seized at the ports of entry: 1,576,343
- Agricultural plant and pest intercepted at the ports of entry: 170,967

## Drug Seizure Statistics

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

- Number of pounds of cocaine seized: 206,246
- Number of pounds of heroin seized: 4,398
- Number of pounds of marijuana seized: 3,859,381
- Number of pounds of methamphetamine seized: 15,810



*A CBP officer seizes illegal substances concealed in a vehicle.*

## Major Mission Programs and Strategies

Securing the Nation's borders from illegal entry of aliens and contraband, including terrorist and weapons of mass destruction, while welcoming all legitimate travelers and trade continues to be a major challenge.

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

Beginning in FY 2012, CBP moved forward with the process of implementing a Planning, Programming, Budgeting, and Accountability (PPBA) strategic framework to manage its financial and personnel resources. The PPBA process is a disciplined approach that ensures the Agency Head's vision, goals, and objectives are clearly articulated; programs and activities are aligned to the goals and objectives; and resources are appropriately allocated to achieve the

# Overview of CBP

desired goals and objectives. CBP continues to ensure that the individual elements of PPBA remain cross-cutting and in alignment to effectively support the agency mission.

The planning aspect of CBP's PPBA process provides the opportunity to assess our strategic direction, accommodate new trends, adapt to challenges inside and outside CBP, and adjusts our corporate priorities to ensure sustained progress toward our strategic goals. CBP's vision and mission are global in scope and, therefore, require both domestic and international engagement to achieve the established priorities. CBP assesses its external trends and drivers, mission requirements, program capabilities and strategic imperatives facing each CBP Line of Business (LOB). CBP's LOBs reflect on alignment of programs and activities with designated capabilities that support a common mission area. CBP LOBs are as follows:

1. Securing America's Borders (Between the Ports)
2. Securing and Expediting Trade
3. Securing and Expediting Travel
4. Intelligence and Targeting
5. Integrated Operations
6. Enterprise Business Services

## Securing America's Borders

CBP has a multifaceted and complex mission of protecting the Nation against a multitude of cross-border violations. CBP's first priority is to prevent terrorist and terrorist weapons from entering the country. U.S. border security is challenged daily by criminals who engage in illegal activity ranging from the import or export of counterfeit goods and outgoing bulk cash movements to the smuggling of narcotics and people into the interior of the United States.

### Border Patrol Strategic Plan

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

Following the realignment of the U.S. Border Patrol (USBP or Border Patrol) under its new parent organization in 2003, it developed the Border Patrol 2004 National Strategy to carry out its new post-9/11 mission. Building on the capabilities realized under the 2004 Strategy, and faced with a changed border and converging threats to national security, USBP was positioned in FY 2012 to introduce and transition to the 2012–2016 Border Patrol Strategic Plan.

# Overview of CBP

The Border Patrol Strategic Plan uses a risk-based approach to securing the border, focusing enhanced capabilities against the highest threats and rapidly responding along the border. It involves a set of objectives, strategies, and programs that use Information, Integration, and Rapid Response to develop and deploy new and better tactics, techniques, and procedures to achieve the USBP strategic objectives.

The 2012-2016 Strategic Plan places risk management at the core of USBP's strategic planning, an evolution from the 2004 National Strategy and from earlier risk-based strategic deployments. Through enhanced situational awareness and intelligence (Information); coordinated operations with our Federal, state, local, tribal, and international partners (Integration); and the ability to respond quickly to changing threats (Rapid Response); USBP will put the greatest capabilities in place to combat the greatest risks. Following is a snapshot of some important elements that fall under each of the three pillars of the Strategic Plan.

## Information

### *Integrated Mission Analysis*

Integrated Mission Analysis (IMA) uses a systematic and comprehensive methodology to identify, evaluate, and manage vulnerabilities, consequences, and capabilities of CBP and matches these with known or potential threats. The resulting Border Assessment Level (BAL) helps CBP answer the question: Is our capability commensurate with the threat?

The IMA process supports the Border Patrol's risk-based approach to border security by integrating operational and threat-condition assessments. Once harnessed, these operational statistics, threat indicators, and warnings will be used to estimate risk. Outputs from the IMA process will aid security stakeholders in determining operational gaps and critical threats, vulnerabilities and risks. As a result, commanders will have both the data and analysis to effectively identify, evaluate, and manage risk. The IMA process assists commanders in managing identified risks by allowing them to make better and timely decisions to:

- Sustain current capabilities;
- Divest from capabilities;
- Reallocate resources;
- Commit mobile-response capabilities;
- Implement non-material solutions;
- Deploy urgent solutions;
- Develop new capabilities; and
- Harness external resources.

# Overview of CBP

## *Consequence Delivery System*

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

The Consequence Delivery System (CDS) interrupts the smuggling cycle and attempts to disrupt and degrade Alien Smuggling Organizations (ASO) through the use of administrative, criminal, and programmatic consequences. CDS measures the effectiveness and efficiency of available consequences that can be applied to persons illegally entering the country against defined alien classifications. CDS provides a process to uniquely evaluate the circumstances of each apprehension and applies the appropriate post-arrest consequences to that individual to break the smuggling cycle and influence the subject's decision on attempting further illegal entry. CDS is a means of standardizing CBP's decision-making process specific to each apprehended subject, consistently applying consequences, and evaluating each consequence's effectiveness and efficiency.

### **Administrative:**

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

### **Criminal:**

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

# Overview of CBP

## **Programmatic:**

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

## *e3 Prosecutions*

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

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

## *Mobile Surveillance Systems*

USBP has numerous Mobile Surveillance System (MSS) units deployed along the northern and southern border. The combination of electronic surveillance sensors, when applied in concert with appropriate tactics, techniques, and procedures, enhance CBP’s ability to detect, identify, classify, and track persons attempting to enter the United States by other than legal or lawfully approved avenues of approach and/or entry. The deployment of this equipment has helped CBP meet its additional goal of increasing border protection capabilities within its allotted manpower.

# Overview of CBP

## Integration

### *Integrated Border Enforcement Teams*

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

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

### *Alliance to Combat Transnational Threats*

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

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

- ACTT also applies the CDS to individuals involved in illegal cross border activity. The objective of the CDS is to ensure the most effective and efficient consequence is applied to each apprehension of an illegal alien by using a range of administrative, programmatic, and criminal actions.
- At the field level, the unity of effort is overseen by the ACTT Unified Command (UC). The UC brings together the field level leaders of DHS and State of Arizona agencies currently participating in ACTT. The UC directs operational activities, including the development and implementation of overall mission objectives and strategies, and approves the ordering and releasing of resources for more law enforcement and public safety agencies that have agreed to participate in ACTT.

# Overview of CBP

- In the immediate border area, transit routes, and final destination locations, ACTT is currently conducting the following operations :
  - » Coordination with the GOM;
  - » Focused border enforcement operations (at and between the POEs);
  - » Defense in depth (including checkpoints and other enforcement efforts along routes of egress);
  - » Coordinated and focused investigative efforts in both Tucson and Phoenix, Arizona;
  - » Mobile Response Team operations;
  - » Detailed deployment of additional Detection and Surveillance and technology; and
  - » Deployment of additional assets.
- On June 26, 2011, Arizona ACTT began a drawdown of detailed resources in Arizona with the replacement of newly hired Border Patrol agents that reached their initial operation capability.
- FY 2013 operations will concentrate on maintaining the significant enforcement gains achieved in Tucson Sector, while reducing the number of externally detailed resources. Throughout FY 2010 to 2012, Tucson Sector received a significant amount of detailed agents and equipment. All new agents reached initial operating capability by the third quarter of FY 2012. Additional detection capability improved with technology received in Arizona in FY 2012.
- CBP established the Joint Field Command – Arizona (JFC-AZ) in January 2011 in order to more effectively address the unique border security challenges faced in Arizona. JFC-AZ achieves unity of effort through sustained coordination with Federal, state, local, and tribal partners (ACTT) in order to minimize operational vulnerabilities, maximize capabilities, and achieve a common understanding of the operating environment throughout the JFC-AZ area of responsibility. JFC-AZ oversees CBP participation in the ACTT, to include operations and activities that are ACTT related.

## *South Texas Campaign*

The primary focus of the South Texas Campaign (STC) staff and area teams, since the last reporting period, remained consistent and in process.

The STC focus is joint integrated operational planning against Transnational Criminal Organizations (TCO) based on threat and risk operating in the south Texas corridor. TCOs are responsible for smuggling significant volumes of both Mexican national and Other Than Mexican (OTM) aliens, narcotics, weapons, bulk cash, and stolen vehicles, as well as other associated crimes and violence in the United States, Mexico, and Central America. The STC's objective is expanded Unified Command to integrate intelligence, interdiction, and investigative components to prioritize support and execution of enhanced and focused operations, based on threat and risk, to achieve highest level impact.

# Overview of CBP

Key to the planning efforts previously referenced is the continued establishment of joint interagency, integrated targeting teams (JTT). The JTTs vary in size and make-up according to operational needs, but generally consist of CBP components, Homeland Security Investigations (HSI), Drug Enforcement Administration (DEA), Federal Bureau of Investigation (FBI), Internal Revenue Service (IRS), U.S. Attorney's Office, and other agencies as appropriate. The objective of area JTTs will not be a task force to develop cases, but rather provide oversight, coordination, and de-confliction for large scale STC integrated operations.

## *Caribbean Border Interagency Group*

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

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

## *Operation Stonegarden*

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

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

# Overview of CBP

## FYs 2010, 2011, and 2012 Program Highlights

### FY 2010

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

### FY 2011

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

### FY 2012

- \$46.6 million appropriated to OPSG
- 39 states/territories eligible to participate OPSG
- 121 counties or equivalent entities received grant award

## *International Liaison Unit*

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

The ILU strategic goals are as follows:

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

# Overview of CBP

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

The ILU's established partnerships have paved the way for programs like OASISS and the Border Violence Protocols program, which was formed in an effort to reduce and provide a response to increased violence in the immediate border area along the southwest border. OASISS was a product of the United States-Mexico agreement to establish a bilateral, standardized prosecution program. The OASISS program was developed to address the increasing amount of alien smugglers across the southwest border. The program allows for alien smugglers apprehended in the United States to be prosecuted by the GOM. In FY 2012, 414 OASISS cases were generated, with 295 principals accepted for prosecution by the GOM.

## **Rapid Response**

### *Mobile Response Capability*

Given the dynamic nature of cross-border threats, the Border Patrol must ensure that it becomes more mobile to respond appropriately to the changing threat. The Mobile Response Capability provides the Border Patrol with the flexibility to deploy capabilities to the highest risk areas of the border. The Border Patrol also deploys scalable capabilities to areas—before those areas become a high risk—to maintain the highest possible levels of security in each border area. This capability builds on situational awareness, because the Border Patrol must know when, where, and to what extent to deploy its capabilities.

### Mobile Response Team

The Mobile Response Team (MRT) provides a national group of organized, trained, and equipped Border Patrol agents who are capable of rapid movement to regional and national incidents and events in support of priority CBP operations. The MRT also responds to intelligence-driven targets and shifts in local and cross-border criminal activity as deemed necessary by each sector's Chief Patrol Agent. The MRT provides a flexible, enhanced, tiered-response capability to counter the emerging, changing, and evolving threats along the operational areas of the Nation's borders.

### Special Operations Group

The Border Patrol Special Operations Group (SOG) is composed of two operational components: the Border Patrol Tactical Unit (BORTAC) and the Border Patrol Search, Trauma and Rescue team (BORSTAR). Each possesses robust support and intelligence sections. SOG provides USBP with specially trained and equipped tactical teams capable of rapid response to emergent or unusual law enforcement situations that require special tactics and techniques, search, rescue, and medical response capabilities via land, air, and sea.

# Overview of CBP

## *Change Detection Capability*

Mobile response ensures flexibility to deploy capabilities to identified high-risk areas but does not fully address the Border Patrol's responsibility to be vigilant in continually evaluating identified low-threat areas for any changes in threat levels. Change Detection Capability is a tactical strategy using various techniques to gather information and intelligence in low-threat areas. This allows the Border Patrol to continue focusing capabilities on areas where the highest risk exists, but ensures that any threat adaptation need can be identified quickly through information and intelligence, culminating in mitigation efforts to rapidly minimize any emergent risk. Examples of programs and techniques that are employed to determine the presence of new threats include periodic reconnaissance patrols, sign-cutting, and tracking, Unmanned Aerial Systems (UAS) over-flights, and interaction with community partners.

## *Forward Operating Bases*

CBP began using Forward Operating Bases (FOB) in the Tucson Sector to address remote crossing points that have historically been difficult for agents to patrol because of the vast distances and time involved to access these areas. FOBs have proven beneficial in the detection and deterrence of illegal entries in the areas in which they have been deployed.

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

## *Border Patrol Checkpoint Operations*

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

Immigration violators are the primary target of an effective Border Patrol traffic checkpoint operation. USBP places specific operational emphasis on terrorists and their weapons, criminals, and smugglers of both humans and narcotics who have successfully evaded detection at or between the POEs. Traffic checkpoints deter criminal elements from using major traffic arteries as egress routes from the border. Smugglers use highway infrastructure to further the illegal entry of their smuggling operations into the United States. Highways provide a rapid and inexpensive means for transporting illicit cargo away from the majority of enforcement assets and to the intended destination.

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Border Patrol traffic checkpoints deny the criminal elements routes of egress and force them to take alternate avenues thereby leaving them more susceptible to detection.

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

During FY 2012, the following border enforcement successes were attributed to Border Patrol traffic checkpoint operations nationwide:

- Individuals arrested: 7,593 (2 percent of total Border Patrol apprehensions)
- Cases referred for prosecution: 1,809
- Narcotic seizure events and incidents: 4,905 (33 percent of the total Border Patrol narcotic seizures)

## *Canine Enforcement Teams*

CBP has the largest and most diverse law enforcement canine program in the United States. CBP canine Officers and Border Patrol agents use specially trained canines to combat terrorist threats, and interdict concealed persons,



*CBP canines are trained to detect illegal immigrants and contraband.*

currency and firearms, agriculture, narcotics, and other contraband at the POEs, traffic checkpoints, at international mail facilities, commercial carrier hubs, and along the border between the POEs. Some CBP canines are trained to perform Border Patrol Search and Rescue (SAR) missions. The Border Patrol Special Response Team (SRT) Patrol Canine program have teams for use in tactical high stress situations. These teams are another tool supporting CBP's ongoing effort to combat border violence to prevent assaults against agents and illegal aliens, and control criminal activity along the border. Presently, there are 963 Border Patrol teams deployed along the southwest, northern, and coastal borders.

Canine teams are assigned to POEs and Border Patrol sectors, and special operations groups throughout the United States. USBP has organized a canine horse patrol unit that allows the canine to work alongside the handler riding on horseback. To meet both new and growing threats, the CBP Canine Program has trained and deployed canine teams in an array of specialized capabilities, known as disciplines. CBP has two canine training facilities, located in Front Royal, Virginia, and El Paso, Texas. In FY 2012, CBP is projected to train approximately 371 canine teams at these training academies. Of the 371 dogs trained, 84 canine teams were trained for the GOM.

# Overview of CBP

## *Mobile Processing Center*

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

## *Border Safety Initiative*

The Border Safety Initiative (BSI) builds on the long-standing public safety and humanitarian measures practiced by USBP. The primary objective of the BSI is to reduce injuries and prevent of deaths along the southwest border region. Over the past several years, unscrupulous alien smugglers have moved migrants into more remote areas with hazardous terrain and extreme conditions. In particular, the BSI is intended to inform potential migrants of the hazards of crossing the border illegally and to respond to those who are in a life-threatening situation. Through the BSI initiative, USBP works closely with the GOM to discourage illegal crossings and to identify those who have perished in the desolate border terrain. In FY 2012 there were 646 incidents resulting in 1,333 rescues.

## **CBP Office of Air and Marine**

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

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

## Securing and Expediting Trade

CBP employs a coordinated approach to balance security, risk, and efficiency in resolving compliance and security issues while facilitating legitimate trade. CBP utilizes three principles to prioritize its efforts. First, CBP identifies trade issues that cause significant revenue loss, pose economic risk to U.S. industry, or represent health and safety concerns to citizens. Second, CBP investigates trade issues that are susceptible to noncompliance, have a history of problems, or are characterized by a lack of automation or complexity. Third, CBP provides guidance to the trade community in the form of regulations, rulings, and directives that enable traders to meet their obligations. CBP uses these three principles to analyze information and identify high-risk trade areas. Currently, CBP concentrates on five priority trade issues: Antidumping and Countervailing Duty (AD/CVD), Intellectual Property Rights (IPR), Textiles and Wearing Apparel, Import Safety, and Trade Agreements.

### Implementation of the CBP Trade Strategy

The CBP Trade Strategy is a framework for management of the agency's trade mission. CBP implements its Trade Strategy by focusing on the management and enforcement of designated Priority Trade Issues (PTI), such as AD/CVD, IPR, and Textiles.

CBP's Re-Engineering Dumping (RED) Team, which is composed of offices throughout CBP, actively develops ways to strengthen CBP's AD/CVD enforcement. The group focuses on transshipment, under collections, the role of shell companies, and other gaps, vulnerabilities, and challenges. The RED Team seeks to strengthen AD/CVD enforcement, reduce the AD/CVD administrative burden to free up resources for enforcement, and increase communication with the Department of Commerce (Commerce), ICE HSI, and the trade community. The accomplishments of the RED Team include:

- Creation of policy guidelines and factual scenarios for the CBP field to increase the use of Single Transaction Bonds (STB) to stop AD/CVD evasion and reduce the uncollectible amount of AD/CVD;
- Development of and implementation of procedures to proactively enforce AD/CVD cases, and to prepare CBP to enforce new AD/CVD orders;
- Establishment of trade intelligence groups with the steel and seafood industry to enhance CBP's AD/CVD enforcement;
- Conducting of the first joint CBP and Commerce training webinar to CBP field staff on an AD/CVD order, and planned other joint webinars; and
- Update of an automated scripting program to liquidate no-change AD/CVD liquidations, in one-third of the previous working hours.

CBP plays an integral role in the implementation and enforcement of trade agreements, which provide duty-free or reduced duty access to the U.S. market for qualifying merchandise. The United States currently has 13 free trade agreements in force with 19 countries, as well as several preferential trade legislation programs. CBP is

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also strengthening trade agreement expertise in the field by providing training courses to its import specialists, auditors, and account managers. During FY 2012, the trade agreements verification pilot resulted in 566 negative determinations (invalid trade preference claims) with an associated revenue recovery of \$1.2 million.

CBP continues its enforcement efforts on textile imports. CBP's most effective tools for enforcing trade preference programs are Textile Production Verification Teams (TPVT). In FY 2012, CBP deployed TPVTs to 9 countries to validate factory production and the accuracy of trade preference claims. As of September 2012, nine TPVT visits have been completed. Of the 174 factories visited, 39 were closed or unable to show production, and 40 were unable to substantiate eligibility for duty free treatment under a trade preference program.

## Importer Self-Assessment

The Importer Self-Assessment program (ISA) provides the opportunity for importers who have made a commitment of resources to assume the responsibility for self-monitoring their compliance in exchange for less intrusion by CBP. The primary objective of the program is for the company to maintain a system of internal control that will mitigate risk and achieve a high level of trade compliance. CBP is exploring new initiatives to broaden the scope of the ISA program and provide additional benefits to its members. Some of these initiatives are highlighted below.

- The ISA-Product Safety (ISA-PS) pilot was announced in October 2008. ISA-PS is a partnership that was created among CBP, the Consumer Product Safety Commission (CPSC), and importers to maintain a high level of product safety compliance and to work collaboratively to prevent unsafe imports. Any importer who participates in the ISA program may apply to ISA-PS.
- Under the United States-Canada Beyond The Border: A Shared Vision For Perimeter Security, announced in February 2012, the United States and Canada will adopt a common framework for trusted trader programs, which will align requirements and enhance member benefits. ISA and Canada Self-Assessment (CSA) programs have recently completed a side-by-side comparison of their trusted trader programs. Preliminary results indicated some areas of similarity in the vetting and evaluation process; however, significant differences exist in the benefits provided to the members. ISA and CSA conducted joint stakeholder's consultations to identify and assess additional ways to expedite border processes. A jointly prepared report containing the results of the activities has been drafted and is scheduled for dissemination to the stakeholders in the near future.
- CBP created a Broker ISA Pre-Certification (Broker ISAPC) pilot to test a broker's ability to be a force multiplier. Under this pilot, CBP certifies qualified brokers and provides guidance on how to conduct the ISA evaluations and reporting requirement. The Certified Brokers will perform a comprehensive review of an ISA applicant's package. The Certified Broker will also evaluate the importer's system of internal control designed to ensure compliant transaction and determine its ability to self-govern through risk based self-testing before presenting the ISA candidate to CBP.
- On October 5, 2012, a General notice was published in the Federal Register announcing ISA program changes. The program now allows importers, who have successfully completed a Focused Assessment audit and are determined to pose an acceptable risk to CBP, eligibility to transition into the ISA program without further review, provided they agree to fulfill the program requirements.

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## Advancing Import Safety

CBP continues to re-enforce its commitment to Import Safety by working in collaboration with the OGAs in order to prevent unsafe products from entering the U.S. commerce. CBP plays an essential role in the interagency import safety arena by promoting risk management strategies, such as partnership programs, increased information sharing, and coordinated enforcement efforts. CBP works in conjunction with the OGAs to develop uniform enforcement strategies, such as detention, seizure, and destruction policies, to control any potential import safety concerns.

To foster interagency coordination at the highest level, CBP chairs the Border Interagency Executive Council (BIEC), which was formed to improve interagency coordination on matters relating to import safety, and is the foundation for enhanced efforts in the area of import safety and trade enforcement. BIEC working groups have been established to explore the potential for Document Imaging System technologies, feasibility of information sharing, a government-wide approach to partnerships and signature accountability in an electronic world. CBP works with the OGAs and the trade community to expand participation in the ISA-PS program. Each participant agency analyzes its operations, policy, and regulatory authorities to identify areas of potential trade and government efficiencies.

CBP continues to work with its Federal partners in the expansion of the Import Safety Commercial Targeting and Analysis Center. Currently the Commercial Targeting and Analysis Center (CTAC) hosts eight partner agencies, including the CPSC, ICE, U.S. Department of Agriculture's Food Safety Inspection Service and the Animal and Plant Health Inspection Service, U.S. Environmental Protection Agency, U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration and the National Highway Traffic Safety Administration, and CBP. Each agency has its own public safety statutory responsibility and all work together to target imports that should be examined for possible safety violations.



*Counterfeit products are a violation of intellectual property rights.*

## Protection of Intellectual Property Rights

Intellectual Property Rights (IPR) are a prominent enforcement priority for CBP, consistent with the mission to protect the economy, national security, and the health and safety of American citizens. CBP continued implementation of its ambitious and ground-breaking Five-Year IPR enforcement strategy that focuses on facilitation, enforcement, and deterrence. Integrated field training covering legal authorities, targeting, and policy were implemented at high-risk ports.

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In FY 2012, CBP launched IPR Strike Units, multi-discipline IPR enforcement units that work in the post-entry environment and allow CBP to more easily issue deterrent fines and penalties against violators. CBP continues to be the primary source of referrals of IPR violations to the National IPR Coordination Center (IPR Center) for criminal investigations by HSI/ICE.

## Enforce Trade Law and Collect Revenue

OA supports the collection of duties, taxes, and fees tied to cargo that is imported into the United States. CBP deposits, reconciles, and manages collections for over one dozen government agencies and collected a total of \$39.4 billion in 2012. CBP processes associated trade payments that relate to refunds of duty, drawback, and distribution of funds collected related to specific trade programs, such as the Payment to Wool Manufacturers and the Continued Dumping and Subsidy Offset Act (P.L. 106-387; CDSOA) of 2000. CBP also processes, reviews, and maintains all surety bond related documents, which help secure the revenue.

## Mitigating Revenue Risk

With the growth in imports and in AD/CVD cases in recent years, CBP has seen increased exposure to revenue loss. To stop the circumvention of U.S. trade laws, CBP identifies high-risk areas and acts to pursue enforcement of U.S. trade laws and collection of proper revenue. CBP utilizes its automated systems to evaluate entry reviews, post audits, and determine necessary cargo examinations. Further, CBP's AD/CVD, Revenue Divisions, and other CBP offices provide referrals to CBP's Regulatory Audit Division, which determines noncompliance with trade laws and regulations. If criminal activities are suspected, then referrals to HSI are made and may lead to criminal investigations.

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

## Trade Transformation

CBP is moving forward on several initiatives to transform the agency's trade facilitation and enforcement efforts. These "Trade Transformation" initiatives look to provide benefits for the U.S. Government and the private sector, and aim to reduce the cost of doing business for both CBP and the trade community, strengthen U.S. economic competitiveness, and enhance cargo security. Central to CBP's work on Trade Transformation is the strength of partnerships with the private sector. The ability to co-create mutual beneficial strategies with the trade community has proven to be a successful strategy for CBP to develop key trade initiatives. The Trade Transformation Initiatives include:

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- Centers of Excellence and Expertise (CEE);
- Simplified Processes;
- Role of the Broker;
- Trade Intelligence;
- Trade Partnerships; and
- One U.S. Government at the Border

The CEEs align CBP trade processing along industry sectors for maximum efficiency. Two CEEs for Electronics in Los Angeles and for Pharmaceuticals in New York. Two additional CEEs were established in FY 2012: for Automotive & Aerospace in Detroit and for Petroleum, Natural Gas & Minerals in Houston. By redirecting work involving our trusted traders to centralized, industry-specific locations, POEs are able to more effectively focus resources on high-risk shipments and importers that may pose a danger to U.S. border security, harm the health and safety of consumers, or violate U.S. trade laws and IPR critical to our nation's economic competitiveness.

The Simplified Process joint industry-CBP Workgroup was established in April 2011 with the goal of formulating viable solutions to diminish the administrative burden related to importing into the United States by reducing duplicative data elements required to obtain the release of products for cargo. The ultimate objective is to streamline the release of goods and enhance cargo security by segregating the filing of transportation information from the filing of entry information.

In May 2012, CBP successfully completed a pilot test of Simplified Entry capabilities in the air mode of transportation at three ports (Indianapolis, Chicago and Atlanta). The pilot was expanded at these three ports to increase the volume of SE filings beginning June 25, 2012. The delivery of Simplified Entry was accomplished within a year from the initial discussions of this functionality and is the result of a successful Government/industry partnership.

The Broker Workgroup was established in January 2011 by CBP, in partnership with the National Customs Brokers and Forwarders Association of America (NCBFAA), to work collaboratively to develop solutions to meet the challenges of 21st Century commerce.

## International Trade Data System

CBP continues its commitment in advancing the International Trade Data System (ITDS) program. The ITDS is a "single window" vision that would provide all parties involved in trade and transport access to standardized information and documents with a single entry point to fulfill all import, export, and transit-related regulatory requirements. CBP is pursuing three measures as a tangible demonstration of this commitment. The fulfillment of these three projects was identified as a key deliverable in the Beyond the Border Action Plan Single Window Initiative, due December 2013.

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- **Measure 1:** In FY 2013 CBP will add data elements required by other agencies to the major import reporting messages for entry and entry summary. CBP developed the infrastructure to capture and store the Participating Government Agency (PGA) specific data, submitted by the trade, in conjunction with the ACE Entry Summary or the ACE Simplified Entry.
- **Measure 2:** CBP delivered the capability for the trade community to submit electronic image files of documents related to ACE Entry Summaries through the Digital Imaging System (DIS). The DIS capability was expanded to accept image files of export manifests to support the export process. The Environmental Protection Agency (EPA) is undertaking a pilot with the trade community to test the utility of this capability by the end of calendar year 2012.
- **Measure 3:** CBP developed the standards for technical interoperability between CBP and other agencies' systems in order to allow other agencies to receive trade data automatically. CBP documented the protocols for interfaces with PGA systems and successfully implemented the interface with two PGAs, namely CPSC and the Food Safety Inspection Service (FSIS). Additional PGAs are in various stages of testing the interface and will be using the interface standards in FY 2013.

## Automated Commercial Environment

CBP is making continued progress on several Automated Commercial Environment (ACE)/ITDS initiatives to further facilitate legitimate trade with the following accomplishments in FY 2012:

### *Deployed ACE e-Manifest: Rail and Sea*

- e-Manifest: Rail and Sea (M1) provides a consolidated view of rail and sea shipment manifest and entry data at the bill of lading or container level to facilitate the identification of shipments that may pose a risk and expedite the pre-arrival processing of legitimate cargo.
- On September 29, 2012, ACE became the only CBP-approved means for transmitting rail and sea cargo information to CBP.
- CBP and the USCG successfully completed a joint pilot of M1 functionality in May 2012. The USCG became the first PGA to navigate ACE M1 in a production environment during a series of successful operational trials in May, 2012 piloted in Charleston, South Carolina. These trials produced information that will lead to better targeting capability of high-risk cargo, improved communication to the trade community, and greater border security.

### *Simplified Entry/Cargo Release*

- Simplified Entry streamlines the data required to obtain release of products for cargo, eliminating the current entry (CBP Form 3461) for those transactions in the Simplified Entry pilot.
- Simplified Entry was built using an Agile development methodology. With Agile development, CBP will build modular components, treating each piece of distinct functionality as a separate project that quickly delivers value for stakeholders and more frequent delivery of smaller segments of functionality.

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- Stakeholders have already begun to experience how this new methodology works in ACE through the quick deployments of the DIS, PGA Interoperability Web Service (IWS), and now Simplified Entry.

## *Exports*

CBP is in the planning phase of establishing ACE as the single processing platform for all export manifest and commodity transactions. This effort keeps with the President's National Export Initiative (NEI) and the Export Control Reform Initiative. Current plans call for the development of an automated export manifest system for all modes. This will involve coordination with the Bureau of the Census and other PGAs involved in export licensing and commodity transactions.

A five-month Automated Export Manifest pilot using the DIS concluded in August 2012, and the Automated Export Manifest is now available to all carriers at all ports.

CBP is also pursuing three near-term initiatives related to ITDS as a tangible demonstration of its commitment to the single window vision. These key ITDS initiatives will automate and enhance interaction between Trade Partners, CBP, and PGA by facilitating electronic collection, processing, sharing, and review of trade data and documents required by Federal agencies during the cargo importation and release process. The initiatives are expected to significantly increase efficiency and reduce costs over the manual, paper-based interactions currently in place.

**Document Image System** – allows trade members to electronically supply documentation needed during the cargo release process to CBP and other Federal agencies. The DIS monthly releases have continuously enhanced features and functionality. The set of documents supported in DIS also continues to expand as more PGAs participate in the program. An April 6, 2012 Federal Register Notice authorized initiation of a pilot, allowing the trade community to transmit documents in Extensible Markup Language (XML) format. For the purposes of PGA forms, invoices, and packing lists that are associated to ACE entry summaries certified for cargo release, the trade may submit the required documentation without a prior request by CBP or the PGA. PGAs, including the EPA and National Marine Fisheries Services (NMFS), participated in the CBP pilot test of DIS capabilities. At the completion of the pilot in August 2012, and the Automated Export Manifest via DIS became available to all carriers at all ports.

**PGA Interoperability** – enables CBP to share trade data, documents, and events of interest in an automated manner. It essentially allows CBP and PGA systems to talk to one another, which allows PGAs greater access to the data they need and increases information sharing and better collaboration with CBP during the cargo importation, review and release process. Both the FSIS and the CPSC are successfully receiving production entry and entry summary data directly from CBP in a fully automated manner. CBP is bringing several more PGAs into the interoperability environment, including: APHIS, Department of Transportation, EPA, NMFS, and USCG.

**PGA Message Set** – introduces a well-defined, harmonized set of data to be collected electronically from international traders by CBP on behalf of PGAs. This initiative automates the collection, processing, and sharing of information required by PGAs, and will replace the myriad of paper forms currently submitted to several individual

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Federal agencies by the trade community during the cargo importation process. It allows the trade community to have a CBP managed “single automated window” for data submission required by all Federal Agencies during the cargo importation and review process. The PGA Message Set is planned to be delivered as part of a subsequent phase of the SE pilot.

## Implementation of the National Annual Audit Plan

The FY 2012 National Annual Audit Plan (NAAP) was developed to provide audit support for trade security, facilitation, and enforcement initiatives in keeping with the mission and goals of DHS and CBP. The NAAP was designed to address DHS priorities, CBP PTI and other Trade and security issues. The NAAP includes PTI such as AD/CVD, Import Safety, IPR, Revenue, Textiles and Trade Agreements. The NAAP also covers Trade Fraud, User Fees, outreach to OGAs, the Trade community and interagency coordination and support. As of September 30, 2012, the results include:

- Assignments completed: 374
- Recommended recoveries, including user fees, identified in assignments completed: approximately \$53.5 million
- Collections from current and prior assignments completed, including penalties: approximately \$40.8 million
- Assignments in progress: 263

## Regulations and Rulings

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

## Non-Intrusive Inspection

The Non-Intrusive Inspection (NII) and Radiation Detection Technology program is a critically important component of the CBP layered enforcement strategy. NII technology allows CBP to scan a larger portion of the stream of inbound traffic for the presence of contraband in less time while facilitating legitimate trade and travel. These

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tools provide CBP a significant capability to detect and interdict terrorist weapons and other contraband at and in between our POEs. At the end of FY 2012, CBP had 308 large-scale NII imaging systems deployed to our Nation's air, land, and seaports of entry and to Border Patrol checkpoints. These systems include large-scale X-ray and Gamma-ray imaging systems, as well as a variety of small-scale, portable, and hand-held technologies. CBP moved quickly to deploy nuclear and radiological detection equipment. Through the end of FY 2012, CBP acquired and deployed 1,461 Radiation Portal Monitors (RPM), 2,555 Radiation Isotope Identification Devices (RIID), and 27,824 Personal Radiation Detectors (PRD) nationwide.

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

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

## Container Security Initiative

Maritime containerized shipping is a critical component of global trade because most of the world's manufactured goods are transported in maritime cargo containers. In the United States, almost half of incoming trade (by value) arrives by containers onboard ships. In FY 2012, more than 12 million cargo containers arrived on ships and were off-loaded at U.S. seaports.

Through the Container Security Initiative (CSI), sea cargo containers that pose a risk for terrorism are identified and examined at foreign ports before they are shipped to the United States. CSI is operational at 58 foreign seaports, and the majority of the containerized maritime cargo destined for the United States originates in or transits through a CSI port. CBP receives the bill of lading and manifest data on sea containers 24 hours before the containers are loaded on vessels destined for the United States. Through partnerships with foreign governments, CSI deploys teams of CBP officials to work with their host Nation counterparts to examine containers that pose a terrorism risk. CSI extends the U.S. zone of security outward so that America's borders are the last line of defense, not the first.

In FY 2012, CBP officers reviewed 10,782,372 bills of lading and conducted 49,415 examinations of high-risk cargo in cooperation with host country counterparts. During the year, CSI continued to transition CSI temporary duty

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assignment personnel to permanent status and place resources at NTC-Cargo to reduce the number of CBP officers deployed. CSI will continue to evaluate and adjust personnel levels at CSI ports to achieve desired staffing levels.

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

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

## Trusted Trader Program

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

C-TPAT requires trade community participants to document and validate their supply chain security procedures in relation to the program's criteria. C-TPAT Supply Chain Security Specialists and C-TPAT participants jointly conduct validations of the supply chain security procedures. The validation process is essential to verifying the company's commitment to C-TPAT. In FY 2012, C-TPAT completed the validation/revalidation of 2,448 companies.

The key outcomes for expanding the trusted trader program (C-TPAT) include:

- Identifying low-risk shipments (risk segmentation) to increase security and facilitate the lawful movement of goods;
  - » Recently C-TPAT Tier 3 and Tier 2 members (who are also ISA members) became exempt from Stratified Compliance Exams, as the members are trusted partners at high levels whose cargo should be facilitated; and
  - » C-TPAT is working with the NII Division to exempt Tier 2 and 3 imports from NII exams in the near future.
- Implementing TSA and CBP initial strategy for a Joint Trusted Shipper Program for inbound international air cargo;
- Improving efficiency and reducing redundancy with OGA through information sharing and foreign validation activities;
  - » On April 10, 2012, CBP and TSA launched an eight-month, joint validation pilot. Members of the C-TPAT and TSA Headquarters staff reviewed their 2012 work plans to determine which airports and carriers were best suited to host joint inspection teams. The

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joint teams work together on location to minimize the redundant efforts that normally occur when the two agencies schedule independent site visits. Each agency maintains its current reporting mechanism; and

» To date, C-TPAT and TSA conducted three of the six pilot joint validations/inspections. C-TPAT and TSA expect that the results of the 2012 pilot will lead to C-TPAT's acceptance that TSA security assessments are commensurate with a validation site visit, and C-TPAT will no longer have to conduct visits for that sector.

- Strategically increasing the number of C-TPAT participants over the next 5-7 years without compromising security standards;
- Conducting research to identify additional business sector expansion opportunities in critical supply chain nodes to increase membership in a valuable way, including discussions on expanding Third Party Logistics providers as well as creating foreign based Consolidator and U.S. Exporter sectors;
- Strengthening scrutiny of future and current members. C-TPAT has been vigilant during the validation process to ensure that company security procedures are being tested and that evidence of implementation is being gathered; and
- Linking various international industry partnership programs through Mutual Recognition. In 2012 C-TPAT signed a Mutual Recognition Agreement with the European Union and expects to sign two more with Taiwan and Singapore.

## Securing and Expediting Travel

Another component of CBP's mission is to prevent the illegal flow of people, weapons, drugs, contraband, and dangerous goods, and protect against cross-border threats to health, food, environment, and agriculture, while expediting the safe flow of lawful travel and commerce. CBP utilizes its capabilities to screen travelers against law enforcement databases and no-fly lists, target for high-risk travelers, monitor departing travelers, and expedite the processing of legitimate travelers. CBP uses a combination of technology, advance knowledge, intelligence, situational awareness, and personnel to screen and inspect travelers arriving at POEs according to assessed levels of risk and determination of potential threats.

### Trusted Traveler Program

CBP's Trusted Traveler Program includes: NEXUS (a bilateral program operated jointly by Canada Border Services Agency [CBSA] and CBP); the Secure Electronic Network for Travelers Rapid Inspection (SENTRI); the Free and Secure Trade program (FAST); and Global Entry (GE). These programs use a common automated system for application submission. Applicants register for an account online, and then submit program applications online via the Global Online Enrollment System (GOES).

The NEXUS and SENTRI programs provide expedited CBP processing for pre-approved, low-risk travelers at the land borders. NEXUS provides expedited processing into the United States and Canada and offers expedited

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processing in Canadian airports and at the pre-clearance locations. Applicants must voluntarily undergo a thorough biographical background check against criminal, law enforcement, customs, immigration, agriculture, and terrorist indices/databases. In addition, a personal interview with a CBP officer and the CBSA is required. Once an applicant is approved, he or she is issued a Radio Frequency Identification (RFID) card that will identify his or her record and status in the CBP database upon arrival at the U.S. land border port of entry. This allows users to have access to specific, dedicated primary lanes for processing into the United States. For NEXUS participants at the airports, the member's iris is scanned during enrollment allowing users to have access to the self-service kiosks. NEXUS members are also allowed to participate in GE and use the GE kiosks.

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

GE was announced as a pilot program in June 2008, and the program is now available at 30 U.S. airports and 10 pre-clearance locations. GE also expanded to airports based on passenger volume. GE was established as a permanent program with the February 6, 2012 publication of the Global Entry Final Rule.

Currently, there are more than 1.54 million members enrolled in the SENTRI, NEXUS, FAST, and GE programs. NEXUS, SENTRI, and GE are being integrated, and as part of this integration, United States Citizen and Lawful Permanent Resident SENTRI members and all NEXUS members have been extended GE benefits. This allows NEXUS, SENTRI, and FAST program members to utilize the GE kiosks and participate in the GE program.



*A traveler using a GE kiosk at the airport.*

As of July 12, 2011, new GE members are issued an RFID enabled GE card, which allows members to use the inbound NEXUS and SENTRI lanes at the land borders.

Citizens of the Netherlands are allowed to participate in GE through a joint arrangement with the Government of the Netherlands known as the Fast Low-risk Universal Crossing Alliance. Through this arrangement, U.S. citizens approved for GE may apply for and participate in Privium, the Government of the Netherlands' trusted traveler program. Reciprocally, citizens of the Netherlands approved for Privium may apply for and participate in GE.

Citizens of the Republic of Korea are allowed to participate in GE through an arrangement with the Government of Korea. Conversely, U.S. citizen GE members may apply for and participate in the Korean expedited entry program, the Smart Entry Service.

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CBP has signed joint statements with the United Kingdom, Germany, and Qatar and is operating limited pilot programs with these countries. Permanent, publicly available programs are being developed. CBP has also signed joint statements with Australia, Israel, New Zealand, and Panama, and is working with these countries to develop trusted traveler arrangements.

## **Advance Passenger Information System**

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

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

## **Electronic System for Travel Authorization**

Electronic System for Travel Authorization (ESTA) allows CBP to effectively screen the information provided by travelers using the Visa Waiver Program (VWP) to determine whether an alien presents a security risk and is eligible to travel to the United States under the VWP.

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

Determining eligibility for VWP travel in advance of travel reduces the number of instances in which a traveler who does not meet VWP eligibility arrives in the United States and is subsequently denied admission. In such cases, the traveler and the carrier incur additional expense, as an immediate return to the country of origin is required.

Currently, the ESTA web site appears in English and 23 other languages and has the full capacity to process the total volume of VWP travelers arriving to the U.S. ESTA became mandatory for all VWP travelers in January 2009, and, in January 2010, CBP began enforcing compliance by requiring airlines to verify ESTA status before boarding passengers.

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In FY 2011, CBP introduced a fee mandated by the Travel Promotion Act of 2009. This \$14.00 fee is required of all new applications since September 8, 2010. Of the fee, \$10.00 funds the Corporation for Travel Promotion, a program known as “Brand USA”, and the remaining \$4.00 funds the ESTA web-based application.

CBP is redesigning the ESTA web site to make the application process easier, to facilitate making payments on multiple applications at the same time, and is exploring new payment types.

## **TECS Modernization**

TECS is a key border enforcement system supporting the inspection of travelers entering the United States and the vetting requirements of other Federal agencies used for law enforcement and benefit purposes. TECS supports Federal agencies responsible for traveler processing, investigations, vetting, entry/exit, and research requirements. The TECS Modernization program is primarily focused on modernizing server infrastructure, databases, and user interfaces that sustain and/or improve current screening capabilities well into the future. The program also provides for highly scalable functionality that meets constantly emerging screening requirements.

The over-arching objective of the CBP TECS Modernization program is to ensure continuity of existing CBP and DHS mission capabilities into the future, while at the same time, establishing a foundation that more readily facilitates adding new technology in response to ever-changing mission requirements and emerging threats. Efforts will result in improvements to system availability, reliability, scalability, and sustainability by transitioning from the mainframe technology to the CBP enterprise architecture. Improvements will facilitate the use of an improved search capability using linguistic searches, and create a service-oriented architecture environment required by Federal law and Departmental guidance. Results also include improved interoperability through user facing applications, standardized query processing, and transition system to system interfaces with external data sources, with minimal impact on external stakeholders. The user interfaces will be web-based, user-friendly, and more intuitive, pre-populating data where possible to minimize re-entry of information and increase efficiency.

## **Admissibility Review Office**

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

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

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## Fraudulent Document Analysis Unit

The Fraudulent Document Analysis Unit (FDAU) was established to act as a central location for the collection and analysis of fraudulent travel documents seized by CBP officers nationwide. The mission of the FDAU is to remove fraudulent travel documents from circulation and prevent the use of these documents by mala fide travelers attempting to enter the United States. The FDAU receives documents that are counterfeit, altered, presented by impostors, or otherwise obtained by fraud or intended for fraudulent use. Documents presented by impostors make up the vast majority of the fraudulent documents received by the FDAU. Since its inception, the FDAU has received over 251,500 fraudulent documents.

The FDAU manages the CBP Fraud Prevention Program (FPP). The goal of the FPP is to increase fraudulent document interceptions by expanding access to standardized training, high-quality document examination equipment, and current information on fraudulent document use and fraud trends. A total of 264 CBP officers have been designated as Fraud Prevention Officers (FPO) in 158 locations, and have been tasked with sharing information regarding document fraud and fraud trends, creating reports on fraudulent document use, conducting document examination training and working closely with headquarters on matters related to document examination and document fraud.

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

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

## Immigration Advisory Program

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

- Enhance border and air travel security through the pre-flight identification and denied boarding of high-risk passengers destined to the United States;
- Disrupt alien smuggling and human trafficking air routes;

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- Combat the proliferation of fraudulent travel documents used by terrorists and alien smuggling organizations; and
- Prevent improperly documented passengers from traveling to the United States.

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

In FY 2012, there were 2,505 “No Board” recommendations with an estimated CBP cost savings of \$6,260,847. In January 2012, IAP Doha, Qatar was opened. In February 2012 the Joint Security Program (JSP) in Panama City, Panama assisted Panamanian immigration officials with the setup of a fraudulent document analysis lab and in May 2012 began guiding the Panamanian government’s implementation of its advance passenger information targeting program. From February 2012 through May 2012, JSP exercises were conducted in Guatemala City, Guatemala and San Salvador, El Salvador.

## **National Agriculture Release Program**

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

## **Land Border Integration**

CBP is capitalizing on the success of the Western Hemisphere Travel Initiative (WHTI) investment by expanding innovative technologies and processes to provide further efficiencies in both security and facilitation at the land border. The key to integration of the land border lies in the Triangle Strategy that aims to authenticate travelers entering the United States, those leaving the United States, and those who are being inspected at checkpoints away from the land POE. As such, CBP is focusing investments in outbound enforcement operations, inbound processing (vehicle and pedestrian), and border patrol checkpoint processing. Strategies include: automated/advanced information, active lane management, mobile technologies, traveler communication, and traffic flow optimizations.

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## **Automated/Advance Information**

### *Inbound RFID Saturation*

Nearly 17 million RFID-enabled travel documents have been issued since January 2008. RFID travel documents, when used in a Ready Lane, reduce processing time compared to general vehicle lanes. During FY 2012, average vehicle processing time was 49.7 seconds; down from 50.8 seconds in FY 2011 and 51.6 seconds in FY 2010.

### *Pedestrian Reengineering*

At the Paso Del Norte (PDN) pedestrian facility in El Paso, Texas, CBP deployed a transit style dual-gate system that queries travel documents and verifies biometrics before the traveler arrives at the inspection booth. At Otay Mesa, California, CBP deployed pedestrian kiosks that query travel documents before the traveler arrives at the inspection booth. These systems have reduced pedestrian inspection time and increased throughput for available processing lanes. Facility improvements at PDN have further reduced wait times in pedestrian processing and added a layer of physical security to operations.

### *Automation at Outbound and Checkpoints*

After infusing technology for inbound vehicle processing at land POEs (WHTI), CBP is infusing similar and much needed technologies for outbound vehicle and Border Patrol checkpoint processing on the southwest border. During FY 2012, outbound locations on the Southwest Border received fixed LPR, an application similar to the Inbound Vehicle Primary Client and mobile handheld devices. Similar technology was deployed at Border Patrol checkpoints. In FY 2012, the new outbound technologies on the southwest border facilitated the seizure of over \$16.8 million in currency, 89 firearms, 76,618 rounds of ammunition, and arrest of nearly 650 wanted fugitives or violators of export laws.

### *Active Lane Management*

CBP has issued a traffic management policy, which established maximum wait time targets for inbound vehicle processing, to all land border ports. In priority order, Dedicated Commuter Lanes (DCL) will always have the shortest wait time, followed by Ready Lanes, and lastly, the general lanes. When DCL wait times are longer than 15 minutes, general lanes will be re-designated. If Ready Lane wait times are more than half as long as general lanes, additional lanes will be re-designated Ready Lanes. CBP actively tracks violations of these targets. Active Lane Management (ALM) leverages existing initiatives such as automated wait time measurement, Ready Lanes, Trusted Travelers Programs, and variable message signage to help Port Directors optimize resources and available lanes to achieve the desired wait time targets. The targets encourage travelers to obtain the document necessary to participate in DCLs and Ready Lanes.

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## *Mobile Technology Solutions*

CBP deployed mobile handheld devices (and wireless access points) to meet the specific concept of operations for outbound processing and checkpoint processing. Handheld Device MC-75A augments operations by automatically capturing and querying license plate images, enabling document machine readable zone swipes, and providing results of law enforcement queries to the officer or agent. CBP also deployed the Enforcement Link Mobile Operations (ELMO) that provide real-time tactical targeting data to field personnel via a smart-phone. The ELMO tool (used by CBP Officers, Border Patrol Agents, and Air and Marine Officers) has resulted in numerous successful CBP enforcement actions, including the interdiction of undocumented aliens, narcotics, unreported currency, and weapons.

## **Traveler Communication**

### *AM Radio Transmitters*

CBP has deployed short-range AM radio transmitters at El Paso and Laredo, Texas, with additional deployments planned at San Luis, Calexico East, Gateway, and San Ysidro POEs by the end of Calendar Year 2012. Deploying AM radio transmitters enhances CBP's current capability to educate travelers regarding procedures at the land border, provide real-time emergency notifications and broadcast wait times at ports near the traveler. Better informed travelers will likely result in reduced wait times.

### *Variable Message Signage*

CBP deployed variable message signs to 22 ports nationwide to better manage traffic flow and provide information to travelers. The signs use LED technology and are positioned above each vehicle lane to inform travelers of processing mode DCL (Ready Lane or general), lane status (open or closed), and processing procedures and policies.

## **Outbound**

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

To perform this mission, CBP utilizes a risk based strategy for inspecting people, cargo, and conveyances departing the United States through all airports, seaports, land border crossings, and at international mail/courier facilities.

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These operations permit CBP to conduct outbound enforcement action while remaining unpredictable to smuggling organizations in order to facilitate the flow of legitimate trade and travel.

The success of CBP's outbound mission relies on its overall layered enforcement strategy. This strategy includes deploying experienced CBP officers for currency/firearms canine teams, the availability of actionable information for officers through leveraging human and network intelligence, increased cooperation with other foreign, U.S. Federal, state, local, and tribal law enforcement agencies, and use of various inspection tools to assist in outbound operations. The mission on the southwest border will also benefit from planned upgrades and expansion to the existing LPR program, outbound infrastructure improvement, and enhancements to outbound Automated Targeting Systems (ATS). The LPR program and ATS enhancements will increase CBP's capabilities to identify and interdict fugitives, persons of interests or contraband (i.e., unreported currency, firearms smuggling, stolen vehicles) before they depart the United States. In FY 2012, CBP completed the deployment of handheld wireless technology to detect and identify high-risk travelers at all POE along the southwest border. Additionally, in FY 2013, CBP will complete the deployment of temporary outbound infrastructure at crossings along the southwest border. The temporary infrastructure improvements include canopies for operations under inclement weather, improved lighting for night operations, traffic control devices for officer safety, connectivity to CBP automated databases, and vehicle arresting devices for those attempting to flee prosecution.

## Intelligence and Targeting

Intelligence and Targeting Programs augment the physical inspection and patrol operations at the field level. CBP's focus is to become an integrated, intelligence-driven organization. CBP's objectives in this area include the coordination of intelligence across agencies (to include foreign partners) and to expand existing collection, analysis and exploitation capabilities to support the development of near real-time, predictive intelligence products and enhanced targeting capabilities. These same efforts also address the need to leverage and link intelligence across all threat streams, activities, and environments.

### **Intelligence Driven Operations: Border Intelligence Centers**

The mission of Border Intelligence Centers (BIC) is to prevent terrorists and terrorist weapons, smugglers and their contraband, and illegal aliens from entering the United States through the real-time collection, analysis, and dissemination of tactical intelligence.

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

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intelligence-driven organization. BICs also serve as a Tactical Operation Center during emergent situations, acting as a lead component when the Incident Command System is initiated.

## **Enterprise Geospatial Information Services**

The Enterprise Geospatial Information Services (eGIS) web-based mapping application provides CBP personnel with the ability to view and analyze Agency-specific data when using any web-enabled computer connected to CBPnet. eGIS is an enterprise-wide, centrally-managed, and highly-distributable system that supports critical missions and daily operations across all major CBP offices. By integrating data from multiple, stand-alone CBP systems, eGIS allows aggregated information (e.g. border activities, resources, allocations, intelligence, etc.) to be visualized and explored in previously unrealized ways. In FY 2012, eGIS access was provided to all users throughout CBP and was fully migrated to a Microsoft Silverlight platform to enhance application speed and functionality. Additionally, CBP added significant base data resources to the system to allow users to analyze Agency-specific data against other vital information such as natural events, critical infrastructure, and partnering agency assets to facilitate better-informed decisions.

## **Intelligent Computer Assisted Detection**

The Intelligent Computer Assisted Detection (ICAD) application supports real time monitoring of USBP covert Underground Sensor (UGS) network and tracks agent dispatch, safety and operational status.

ICAD allows Border Patrol supervisors and dispatchers to monitor, in real-time, the location, status, and activity type of each agent in their area of responsibility. The system provides audible and visual alerts of potential dangers that an agent could face while on-duty. Supervisors and leadership are able to determine exactly how and where resources have deployed, or moved throughout the workday, and maintain situational awareness of developing events.

ICAD maintains a full life cycle record of Underground Sensors (UGS). Since 2011, all sensor acquisitions, transfers, repair status, and deployments have been tracked. ICAD processes UGS detections based on user-defined rules and promotes significant events as alarms. Sensor responses and dispositions are documented thereby allowing users to analyze sensor activations over time. In 2012, ICAD integrated imaging sensors and “smart” sensors, to enable real time monitoring and increased efficiency in sensor response activities.

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

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## Unmanned Aircraft System

CBP introduced the Predator B Unmanned Aircraft System (UAS) in 2005 as a long duration, remotely-piloted asset for border security. However, the advantages of the UAS over conventional aircraft, including surveillance and detection capabilities from 18 to 20 hours and access to environments that may be hazardous to traditional aircraft crews, persuaded CBP to increase the types of missions being performed by the UAS. Additionally, as the Federal Aviation Administration (FAA) granted ever-expanding Certificates of Authorization (COA) for flights over 3,000



*Unmanned Aircraft System.*

miles of the land and maritime borders, CBP has realized the potential of the Predator B as an intelligence-gathering asset, for special missions requiring forensic analyses, and as a strategic platform for coordinating multiple air and ground responses over broad areas of the border, has been realized.

The UAS is now entering an entirely new phase of operations and employment. With the introduction of broad area sensors for use over land and water, and the potential for specialized sensors for unique national missions, the UAS is no longer just another tool for land border interdiction support. The UAS supports capabilities not

envisioned with the earlier secure border initiatives. CBP currently has 10 UASs in operation, and the tenth system, the third maritime Guardian was delivered in September of 2012. CBP intends to halt temporarily the acquisition of new systems and to concentrate its efforts on refining the CBP sensor capabilities, and the tactics, techniques, and procedures by which these sensors can be employed most effectively.

CBP will continue its efforts to expand and maintain effective control of all air, land, and maritime borders at and between POEs through a layered, in-depth defense approach. Providing security along the northern, southern, and coastal borders requires effective coordination and integration of all of CBP's operational components, along with the guidance and assistance of essential CBP mission support personnel.

## National Targeting Centers

### *National Targeting Center – Passenger*

CBP created the National Targeting Center – Passenger (NTC-P) to be the single point of reference for CBP anti-terrorism efforts. NTC-P plays a vital role in the identification of individuals who pose a national security concern at POEs and Border Patrol checkpoints. While the vast majority of travelers and goods are legitimate, NTC-P is designed to carefully identify and examine the small minority of those persons who may be involved in terrorism or its attendant concerns (e.g. money laundering, facilitation of travel, etc). NTC-P is staffed with permanent and Temporary Duty (TDY) analysts, as well as several inter-agency liaisons to provide 24 hours, 7 days a week

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(24x7) tactical targeting and analytical research support for CBP anti-terrorism efforts. NTC-P uses numerous automated enforcement data processing systems that are focused on detecting and preventing terrorist access to the United States including the Automated Targeting System-Passenger (ATS-P) and the Targeting Framework. These systems allow NTC-P to screen passenger manifests and related information prior to arrival in the United States.

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

- ATS-P Pre-Departure targeting;
- U.S. Visa re-vetting for derogatory information subsequent to the Visa issuance;
- Targeting Outbound inspections;
- Synchronizing Department of Defense biometrics with US VISIT;
- Supporting IAP teams;
- Enhancing ATS-P entity resolution and infrastructure capabilities and improving quality of commercial carrier-provided Passenger Name Recognition (PNR) data;
- Improving the Terrorist Watch List in collaboration with the DHS National Counterterrorism Center (NCTC);
- Coordinating with Department of State (DOS) and ICE to automate vetting of U.S. non-immigrant Visa applications before submission to Consular officers overseas; and
- Implementing the National Targeting Strategy:
  - » Create a unified NTC - establish a joint NTC facility;
  - » Expand all modes pre-departure targeting;
  - » Strengthen Container Security Initiative (CSI) targeting; and
  - » Strengthen Agriculture Bioterrorism (Ag-Bio) attack resources targeting.

Additionally, NTC-P conducts liaison work with the Centers for Disease Control, Central Intelligence Agency (CIA), ICE, FBI, Transportation Security Administration's (TSA) Office of Intelligence, TSA Secure Flight, Federal Air Marshals, DOS Consular Affairs, Diplomatic Security Service, USCG, The International Criminal Police Organization (INTERPOL), and U.S. Citizenship and Immigration Services' Fraud Detection and National Security unit. CBP and TSA have established a joint Targeting Workgroup to leverage CBP targeting capabilities with TSA authorities to ensure that high-risk passengers are screened overseas prior to boarding a conveyance bound for the United States. NTC-P has also instituted an International Targeting Center, with on-site representatives from the United Kingdom and Canada to conduct international operations to stop the smuggling of people, weapons, and contraband.

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## *National Targeting Center - Cargo*

The National Targeting Center - Cargo (NTC-C) supports CBP cargo-related activities by proactively targeting and coordinating examinations of high-risk cargo in all modes of transportation; provides high-quality research to the CSI, Secure Freight Initiative (SFI), domestic analytical units, and OGA; and implements new proactive targeting methodologies. NTC-C provides advance cargo targeting, research, and coordination in support of the CBP anti-terrorism mission on a 24x7 basis.

Key functions of the NTC-C include identifying companies and cargo linked to identified terrorists and criminals, and creating Memoranda of Information Received, The Enforcement Communication System (TECS) records, Automated Targeting System (ATS) user-defined rules, ATS notes, and Terrorist Screening Data Base (TSDB) nominations. NTC-C conducts user-defined queries for Weapons of Mass Destruction (WMD), Weapons of Mass Effect (WME), agroterrorism, and bioterrorism threats. NTC-C identifies shipments linked to terrorism, narcotics, and trade-based money laundering. Analysts conduct research on seized or detained documents relating to terrorism, organized crime, IPR, and human smuggling to develop additional targets and makes enforcement referrals to ICE.

NTC-C enhances remote targeting operations in support of the CSI, supports and coordinates the International Container Security (ICS) component of SFI, and supports domestic and CSI/SFI port targeting. CSI and SFI operations at the NTC-C facility support CBP maritime related anti-terrorism activities and maritime enforcement targeting.

In response to the October 2010 attempted terrorist attack to ship explosives to the United States from Yemen, NTC-C initiated the Air Cargo Advance Screening (ACAS) pilot program. The ACAS operation is staffed with both CBP and TSA targeting analysts who jointly target and mitigate air cargo inbound to the United States before allowing the cargo to be loaded onto an aircraft. Pre-departure targeting allows CBP to push U.S. borders outward by keeping high risk cargo off international conveyances destined to the United States. The success of the ACAS pilot program in the express carrier phase with UPS, FedEx, DHL, and TNT Express in FY 2012 laid the framework for program expansion, to include air carriers and freight forwarders.

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

In FY 2012, NTC-C continued to target outbound and in-transit shipments destined to high-risk countries, including shipments containing controlled chemicals, weapons, and dual-use equipment used in the production of WMD/WMEs. In FY 2012, NTC-C also continued to target narcotics and precursor chemicals.

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NTC-C Agricultural/Biological Terrorism Countermeasures (ABTC) operation continued to increase efforts to identify and target shipments and subjects that pose potentially significant risks. NTC-C Agriculture Program Trade Liaisons (APTL) collaborate with the Defense Intelligence Agency, USDA, and OGAs to identify and target entities with derogatory information that have the capability and knowledge to utilize biological materials for nefarious purposes.

## Integrated Operations

Integrated Operations describes mission-direct, cross-cutting enabling functions and the coordination with OGAs designed to protect key assets and special events of national interests. This also encompasses the provision of international/partner technical and training assistance to improve global border security and the socio-economic vitality of border towns, as well as responding to natural or man-made occurrences and managing end-to-end logistical needs within CBP.

## Incident Management

The CBP Joint Operations Directorate (JOD) Incident Management Division ensures CBP's emergency preparedness, establishes incident management protocols and oversees CBP response efforts to events beyond the scope of steady state operations. CBP's emergency preparedness and response efforts are in collaboration with inter/intra-agency partners to ensure and support an integrated, whole of government approach to recover from any natural or man-made disaster. CBP aligns its incident management processes and procedures using the Homeland Security Management System structure in accordance with the principles of the National Response Framework, the National Incident Management System and Incident Command System. CBP utilizes the FEMA region boundaries to guide coordinated field-level emergency preparedness and incident management planning. Each Region includes a Lead Field Coordinator (LFC) and Deputy Field Coordinator (DFC) identified by their component office and approved by the Commissioner.

Under the Homeland Security Act, CBP is charged with supporting National Special Security Events (NSSE) and Special Event Assessment Rating (SEAR) level events. CBP utilizes the LFC construct to provide support to these venues. Primarily, CBP conducts security patrols and performs non-intrusive inspections with large scale imaging systems.

## Continuity of Operations (COOP)

CBP has established a COOP program to ensure that appropriate planning policies and procedures are in place to make certain that Mission Essential Functions (MEF) can be continued regardless of the availability or accessibility of any one specific facility or even our main national Headquarter buildings within the National Capital Region. The CBP COOP program follows a framework that provides the capability to meet the highest level of COOP

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response in support of MEF. The CBP COOP Program includes, but is not limited to, this over-arching COOP Plan that provides strategic guidance; an independent Continuity Operating Procedures (COP) outlining specific roles, responsibilities, critical processes and associated activities for attaining operational capability at a pre-designated Emergency Relocation Site (ERS) within 4 to 12 hours of activation, and Office-specific COOP Implementation Plan procedures that are pre-scripted, office-specific actions that ensure continuation of each offices respective CBP MEF.

## Business Resumption

The JOD, Canada Border Services Agency and Mexico Customs have developed business resumption planning protocols in the event of an incident that has the potential to cause, or causes, significant and measurable disruption to the normal flow of trade between Canada, Mexico, and the U.S. at the POEs. Business resumption resumes the flow of legitimate travel after a significant incident by providing coordinated situational awareness to the public and trade community, developing a commensurate enforcement response based on threat, facilitating the movement of people and goods, and continuing to assess and communicate to all stakeholders. CBP employs the use of the Unified Business Resumption Message (UBRM) service to provide the trade and travel community instant alerts and up-to-date information if an event occurs that could delay the flow of trade through a POE.

## Strategic Air and Marine Plan

In the nearly six years since the submission to Congress of the first edition of the Strategic Air and Marine Plan (StAMP), CBP's efforts to create a more capable and flexible air and marine service have proven highly successful. As the program enters FY 2013, light helicopter acquisitions for new helicopters were funded, and entire types/models of aged and unsupportable helicopters retired or being processed for retirement. Work on extending the service life of CBP's Black Hawk medium lift helicopters is well underway, with the fifth of 16 proposed aircraft going into production before the end of the year. The P-3 long range patrol aircraft, undergoing a 10-year service life extension program (SLEP), remains on cost and schedule targets as the SLEP enters its seventh year. The remainder of the P-3 SLEP remains on schedule to complete during fiscal year 2016. The agency can now provide aircraft to support the vital national mission to disrupt bulk cocaine shipments from South America to Mexico and the U.S. border. The acquisition of DHC-8 medium range patrol aircraft has been completed. The first 2 twin-engine Multi-role Enforcement Aircraft (MEA), replacements for 26 aging C-12, PA-42, and B-200 type assets, are operating along the southwest border region. MEA has been requested in the FY 2013 President's Budget. Contracts for marine vessel acquisitions were awarded in early FY 2012, paving the way for the completion of the strategic plan for the entire marine component of the StAMP.

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

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## Capacity Building

Capacity Building is a holistic process driven by the partner administration that result in sustainable changes, through training, mentoring, and the infusion of resources. It is a long-term, comprehensive, and repetitive process designed to improve the ability of a CBP partner administration to carry out its assigned functions through the development or acquisition of skills, competencies, tools, processes, and resources.

Additionally, these efforts are designed to improve international relationships and enhance border security by supporting the adoption of best practices and the development of infrastructure that will allow foreign partners to keep pace with changes in the global environment and securing the safe flow of people and goods.

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

During FY 2012, CBP provided 257 capacity building sessions for foreign partners including 17 courses at the International Law Enforcement Academy, and provided capacity building support in over 62 countries.

## Information and Technology

CBP's network infrastructure and associated data center capabilities are the Information and Technology (IT) backbone that supports all CBP systems. All CBP systems depend on the CBP infrastructure to ensure delivery of critical information; any disruption in service can result in an inability for CBP to effectively perform its mission. The systems supported by CBP infrastructure allow for a unified border presence and provide for more efficient and effective information sharing among trade and law enforcement agencies. CBP infrastructure serves a variety of Federal, state, local, and international government agencies. These agencies have varying missions and strategic goals but collectively their purpose is to minimize threats to the American people.

The IT systems are vital tools that CBP and other Federal agencies depend on to defend our borders and support our POEs. The systems assist CBP officers and BP agents in identifying potential threats, including terrorists, weapons of mass destruction, and bioterrorism. The systems provide the means by which U.S. trade laws are enforced and provide the capability to collect tariffs and taxes related to international trade and commerce. The technology utilized in CBP infrastructure enables CBP to continually improve the selectivity of low-risk cargo, vehicles, and people, while expediting the clearance process.

IT infrastructure is the catalyst that enables the CBP frontline to protect the United States from the entry of dangerous goods and people while simultaneously expediting the flow of people and goods. Specifically, on a

# Overview of CBP

daily basis, CBP's IT systems allow frontline officers and agents to process millions of passengers and pedestrians arriving internationally, by air, sea and land across our borders. Additionally CBP's IT systems and infrastructure enable the collection of fees, duties, and tariffs. The processing of cargo and passengers, as well as the collection of fees, duties, and tariffs, results in the daily processing of messages and database queries with OGAs, passenger carriers, cargo brokers, trade representatives, and airlines. CBP's on-line database queries are among the highest in the world. To sustain these capabilities requires a robust IT infrastructure and a dynamic IT Operations and Maintenance (O&M) strategy to rapidly respond to daily issues/problems.

In addition, the Office of Information and Technology (OIT) is focused on the future. Technology forces, such as social media and cloud computing, are rapidly shifting the market and the scope of threats that CBP and DHS are encountering, which are changing our ways of doing business. Budget constraints are adding greater pressure to find ways to standardize and streamline, and to drive further efficiencies. In response, CBP is looking to improve business processes and to change the way it delivers services.

To address the required technology changes, OIT has been working to review its technology capabilities and change its processes for service delivery so that CBP can better serve employees in the field and other customers. OIT has started efforts to simplify and to migrate its production applications on future state standard architecture, and has started to migrate applications to DHS data centers. These migration efforts will continue through FY 2015, with continued migration funding in the DHS Chief Information Office's budget. Now that migration has begun, CBP must continue to move its production applications from the CBP National Data Center to the two DHS data centers so that CBP is not left with production applications in multiple environments that will be more costly to sustain in the future.

## **Tactical Communications Modernization**

The Tactical Communications (TACCOM) modernization effort is composed of two parts. TACCOM 1 focuses on upgrading aging infrastructure from analog to digital, expanding coverage and capacity, and providing Advanced Encryption Standard protection to law enforcement sensitive communication in three focus areas: Houlton, Maine; Rio Grande Valley, along the Gulf Coast of Texas; and El Paso, western Texas and State of New Mexico. The program completed modernizing land mobile radio systems in Yuma and Tucson (State of Arizona) in July 2011. Additionally, TACCOM 1 is doing a Digital-in-Place as a capstone project to the TACCOM 1 program; its goal is to set the baseline configuration and to replace/upgrade existing land mobile radio analog equipment with Project 25/Advanced Encryption Standard compliant digital equipment.

Next Generation TACCOM, known as TacNet, will analyze the potential for mission-grade broadband wireless service to users; leverage commercial or public safety networks; and provide broadband voice, video, and data at reduced per-user cost. The TACCOM Acquisition Program received an Acquisition Decision Event 1 approval from DHS on March 31, 2011 to pursue this program.

# Overview of CBP

## Laboratories and Scientific Services

Laboratories and Scientific Services (LSS), the scientific arm of CBP located in the Office of Information and Technology, provides scientific and technical support and advice on trade, weapons of mass effect, and forensic issues. LSS field personnel provides trade enforcement support by analyzing samples from imported commodities for classification and admissibility issues, Intellectual Property Rights (IPR) evaluation and support, and anti-dumping and countervailing duties scientific advice. Samples are analyzed in both the laboratory and on-site at the ports-of-entry utilizing mobile laboratories. These mobile laboratories are equipped with portable, high tech analytical scientific instrumentation.

Forensics scientists provide advice and support to the Office of Field Operations, Office of Border Patrol, Immigration and Customs Enforcement (ICE), United States Coast Guard, and other Federal agencies. The forensic services include latent fingerprint lifting and identification, digital forensics including cell phones, computers, and GPS devices, audio/video enhancement and duplication, crime scene processing, and suspect controlled substances analysis. Scientists are dispatched to the field to provide training on processing crime scene and field testing of suspected controlled substances.

LSS operates a Tele-forensic Center (TC) that provides field personnel with reach back access to scientific and technological resources. These resources help facilitate resolutions for field personnel in the performance of their duties. One of the field personnel's primary duties is detection, isolation and control of potential threats that may result from the presence of chemical, biological, radiological or nuclear (CBRN) materials. TC scientists provide technical support to resolve threat issues related to the execution of this duty.

Field scientists have also been trained on the use of sophisticated scientific instrumentation for the detection of weapons of mass destruction materials. These instruments are used to support the ports of entry and are delivered on site by use of a mobile laboratory.

The Interdiction Technology Branch (ITB) consists of general engineers, physical scientists, and project managers to provide CBP with an internal technical capability to ensure that field personnel have the best and most advanced high-technology enforcement equipment available. As the Department of Homeland Security and other organizations are conducting multiple research and development projects for next generation equipment, ITB assists CBP in assessing the "readiness" of equipment proposed for field validation and/or deployment. ITB also performs factory acceptance tests and installation certification of new enforcement equipment. ITB is also involved in the testing of tunnel detection equipment along the southern border of the US for future deployment along the border.

## Enterprise Business Services

Enterprise Business Services focus on the efficient and effective management of infrastructure that supports all CBP mission areas. This line of business encompasses management of CBP's assets and logistics; real property; finances; security and clearances; human resources; and information technology; as well as executive office support; workforce development; and policy, planning, and governance functions. The responsibilities of each sub-program are detailed below.

### **Asset/Logistics Management**

As CBP's Office of Administration (OA) is the sole provider of asset management for CBP. In this role OA acquires, implements, and controls all asset related programs, including personal property, fleet, uniforms, seized and forfeited property, mail, and the CBP printing program.

OA provides program management oversight for CBP personal property through its sustainable lifecycle, including the accurate accounting of property, efficient utilization of property resources, identification of efficiencies, and effectiveness in property management, and integration of property records with financial accounting and reporting. While managing and maintaining CBP's Personal Property Program, OA works to increase efficiency and effectiveness; leverage acquisition strategies; and minimize loss of all accountable, high-risk and sensitive, capitalized, and leased property to meet critical mission requirements in accordance with OMB, GSA, DHS, and CBP laws and regulations.

OA's fleet management facilitates the acquisition, up-fit, and disposal of vehicles necessary to maintain an operationally ready fleet. OA provides vehicles to support interdiction, enforcement, intelligence gathering, pursuit, surveillance, seizure, trade and travel facilitation at and between the ports of entry, and first responder activities required by officers and agents nationwide. The outcomes are best represented by the ability of CBP to maintain the current levels of operational readiness, in part, by holding the average age of the fleet steady at three to four years old and stabilizing the replacements made. Additionally, fleet management provides environmental reporting, acquisition reporting, program performance status, administration of the Home-to-Work program and leading the maintenance, repair, and operations initiatives aimed to gain efficiencies and drive down costs.

OA also oversees the uniforms supply chain for CBP officers and agents. Integral to the DHS mission is the support provided by the uniformed personnel throughout DHS that guard and protect the nation daily. Key capabilities and responsibilities include establishing and managing uniforms acquisition contracts; formulating and reporting on the uniforms program budget; ensuring proper distribution of uniform items to CBP academy graduates; managing the uniforms catalog; monitoring uniforms inventory; and tracking and reporting use of uniform allowances.

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## Real Property Management

OA manages CBP's Construction and Facilities Management Program, which delivers critical facilities, associated infrastructure, and program support services in order to provide the facilities solutions and associated infrastructure required to obtain and maintain operational control of the border. This sub-program encompasses the personnel and tools to plan, acquire, finance, manage, and sustain CBP's multifaceted facilities portfolio across the acquisition life cycle, including construction, operations and maintenance, and rent activities.

The real property management sub-program provides basic building operations (e.g. custodial services, grounds services, trash and snow removal, and utilities), maintenance and repairs (e.g. preventative maintenance and regional contracts, planned and unplanned emergency repairs, and tunnel remediation), and one-time costs associated with the management of leased space (e.g. moving costs for forced re-locations, physical security requirements, voice/data cabling infrastructure updates and configuration of space). CBP customers are assisted by a cadre of highly skilled real property specialists which offers architectural, environmental, energy, real estate, and engineering services, along with long-term strategic planning expertise that allows CBP to strengthen operational support and enhance operational capabilities and efficiencies.

The sub-program also includes the rental of facilities, space, buildings, structures, land, and rent-related building charges and services, including utilities and services provided by the Federal Protective Service (FPS). Leased operational space requirements include marine units, National Marine Training Centers, Unmanned Aerial Systems (UAS), Air Branches and Units supporting OAM; Sector Headquarters facilities, Border Patrol Stations, Forward Operating Bases, and checkpoints supporting USBP; field offices and POE supporting Office of Field Operations (OFO); and administrative office space and laboratories supporting Mission Support offices.

## Financial Management

OA provides CBP's essential financial management services including budgeting, accounting, processing of vendor payments, procurement of products and services, investment analysis, and collection of over \$39.4 billion in revenue annually. OA delivers these services through customer involvement and modern, integrated financial systems. One such system is CBP's Enterprise Resource Planning (ERP) system for integrated financial, procurement, and property management. This state-of-the-art system has eliminated many paper processes, improved efficiencies in several business areas, allowed CBP to continue its outstanding financial performance with unqualified audit annual opinions since 2005. These systems support CBP's goal of developing and promoting more effective and efficient methods to obtain and manage financial data, resources, and capital assets, consistent with the needs of customers and stakeholders.

This subprogram also encompasses the full range of budget administration activities provided by OA. These include budget formulation, management of the budget submission, defense of annual funding and reprogramming requests, budget execution, management of appropriations and expenditures of funds, correspondence with OMB and Congress on all budget matters including budget submissions, and provision of requested reports.

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OA oversees CBP's internal controls over financial reporting, as required by OMB Circular A-123, the Federal Managers Financial Integrity Act (P.L. 97-255; FMFIA) and Federal Financial Management Improvement Act (P.L. 104-208; FFMIA), by conducting internal control reviews and coordinating the development, monitoring and resolution of any corrective action plans or mission action plans resulting from any reviews or audits. OA also coordinates and oversees the annual audit of CBP's financial statements and the annual consolidated audit of DHS' financial statements and internal controls. The Chief Financial Officers Act (P.L. 101-576) and the DHS Financial Accountability Act (P.L. 108-330) require that DHS undergo an annual financial statement audit and internal controls audit. OA serves as the liaison with the DHS Office of the Inspector General's (OIG) contracted Independent Public Accountant firms and DHS for coordination and facilitation of audit activities. OA also liaises with the GAO and the OIG to facilitate these entities' audits of all CBP programs. Results of the internal control reviews and the Financial Statement Audit findings recommendations and remediation lead to increased efficiency within CBP.

OA also provides procurement contract operations, which include all pre-award, award, and post-award contract activities required to plan, select, acquire and manage the acquisition of products, services, supplies and equipment. CBP's requirements range from simplified acquisitions to major systems acquisitions, which result in the award of a variety of contracts and task, delivery and purchase orders, as well as interagency agreements. Many of the procurements involve complex requirements, are high-dollar value, represent multi-year efforts, are competitively awarded, and come with intense political interest. OA also manages special projects and executes CBP's extensive, reimbursable interagency agreement program. OA's contracting operations support all of CBP to effectively deliver mission capability through the acquisition of critical products and services.

OA establishes the processes that ensure policy and strategy align with Department and Agency guidance and the Future Years Homeland Security Program (FYHSP). OA also established process that measure and determine if programs are effective at meeting their stated goals and objectives.

## Executive Office Support

Executive office support is provided primarily by the Office of the Commissioner (OC), which has responsibility for management and administration of the CBP Front Office. This portfolio includes responding to Freedom of Information Act (FOIA) requests, providing daily information support to senior leadership, facilitating interagency coordination, and overseeing internal communications.

## Human Resources

HRM provides centralized human resources support to more than 60,000 CBP employees, both nationwide and overseas. HRM recognizes that its first priority is to support the CBP mission, and HRM is committed to being a strategic and tactical partner in achieving the Agency's mission. HRM provides human resources and personnel management services that support CBP leadership, as well as law enforcement officers, revenue collectors, agricultural specialists, and support personnel.

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HRM's operational and programmatic scope is broad, and its commitment to build a sustainable infrastructure to support the growing demands for strategic human capital planning is strong and customer focused. HRM meets its customers' operational requirements by providing strategic leadership to ensure the efficient and effective delivery of services for:

- Recruiting, assessing, and hiring candidates to fill mission critical occupations;
- Creating efficiencies by leveraging technology to improve human resources business processes;
- Providing medical, benefit, and work life advisory services;
- Promoting a safe and healthy work environment;
- Facilitating workforce and organizational effectiveness;
- Establishing CBP human capital policies; and
- Conducting all labor and employee relations operational services for all CBP.

Below are some examples of HRM's FY 2012 major activities that resulted in substantial cost avoidance and savings:

## *Recruit, Hire, and Retain a Mission-Ready Workforce*

One of HRM's mission priorities is recruiting, hiring, and retaining a mission-ready workforce. The timely and efficient hiring of highly qualified people is one of the most important factors in maintaining a successful organization. This is particularly relevant to CBP which must annually fill high numbers of entry-level law enforcement positions that become vacant due to attrition. Hiring to maintain congressionally mandated staffing levels for these mission-critical positions requires HRM to maintain efficient hiring processes that ensure the best candidates are hired in a timely and cost-effective manner.

In FY 2012, HRM, in coordination with several program offices, began a review of CBP processes used to attract, evaluate, and hire candidates for frontline entry-level law enforcement positions. The objectives of this review were to identify opportunities to reduce hiring costs and achieve operational efficiencies while continuing to ensure the quality of applicants hired. The HRM-led collaborative effort resulted in the successful implementation of hiring process improvements that allowed CBP to realize substantial cost avoidance and savings during FY 2012. CBP also met the requirements of the Anti-Border Corruption Act (ABCA) of 2010 three months in advance of the January 1, 2013 start-date required by the legislation.

HRM, in partnership with other CBP offices, pursued innovative approaches to attract, assess and ensure hiring of the best-qualified applicants, and implemented changes in hiring processes and practices that allowed CBP to reduce hiring costs and the time-to-hire, leverage technology, and achieve process efficiencies. Process improvements implemented included: providing CBPO applicants an opportunity to gain an understanding of the content difficulty of the written test they must pass before completing their application; amending practices to allow

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applicants a second opportunity to meet position-related physical fitness requirements; and sequencing various assessment processes to minimize overall processing costs.

## *Realize Organizational Efficiencies*

HRM is committed to streamlining and realizing organizational efficiencies where ever possible, and HRM continues to advocate for efficiency and cost reduction through innovation.

One example of efficiency implemented in FY 2012 was the Table of Organization (T/O). The T/O depicts the allocation of human resources required to meet mission requirements, and enables CBP managers across the enterprise to effectively allocate the workforce to meet mission requirements within budget limitations. Simply stated, the T/O reflects the total positions, occupied or vacant, authorized to accomplish the CBP mission.

In June 2012, HRM enhanced the T/O by administering the development of the Query Module, enabling Program Offices to accurately refine T/O information with live data thereby improving the quality of workforce management programs to allocate and manage staffing requirements. This initiative resulted in efficiencies gained through the identification and elimination of numerous redundant or obsolete vacancies, saving the agency substantially on an annual basis.

Prior to the development of the T/O, program offices used various tools, such as spreadsheets and Access files, to allocate and manage workforce levels within their budgets. The tools were not consolidated; consequently, CBP leadership did not have the capability to view the total workforce at any given time. This lack of visibility hindered CBP managers and leadership in identifying and reducing duplication of efforts, improving efficiencies, and lowering costs.

Another area in which HRM created efficiencies during FY 2012 was the Workers' Compensation Program. HRM proactively assesses, plans, and advocates for necessary services to meet the needs of CBP employees who are injured while performing their duties. HRM initiated an aggressive chargeback report review and return to work initiatives that resulted in a reduction of CBP Workers' Compensation Program chargeback costs.

## *Improve Business Processes for Managing Human Resources*

HRM continues to improve the development and management of processes that serve its customers. Part of this effort is HRM's continued commitment to using information technology and Business Process Management (BPM), a flexible approach to the design and implementation of its process workflows.

The Human Resources Business Engine (HRBE), a web-based workflow engine, was a direct result of the drive toward efficiency in HRM processes. To date, HRBE supports HRM's largest, most complex pre-employment processes in both the Indianapolis and Minneapolis Hiring Centers, for professional and entry-level hiring.

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Combining the two disciplines of Business Intelligence and BPM, with an eye to re-engineering internal human resources processes, HRM will implement the Table of Organization, Occupational Safety and Health (OSH) Injury Analytics, the automated OGE-450 Financial Disclosure micro flow, an automated case management micro flow for OSH Safety Inspections, and an automated workflow for the Drug Free Workplace program, that helps schedule and manage drug tests over all CBP sites. The multi-million dollar cost avoidances and savings are fully in line with CBP's business transformation efforts towards a more efficient, more effective CBP.

## Security/Clearance Management

The security/clearance management sub-program falls primarily under the purview of the Office of Internal Affairs (IA). IA exercises oversight authority for all aspects of CBP security including operational, personnel, and facilities, as well as the CBP counterintelligence program (including cyber protection). IA's mission is to promote the integrity and security of the CBP workforce. IA performs and manages a wide variety of functions and programs distributed among seven divisions: Personnel Security, Investigative Operations, Integrity Programs, Credibility Assessment, Operational Field Testing, Security Management, and Management Inspections.

IA conducts investigations of alleged criminal and serious non-criminal misconduct on the part of all CBP employees. The office coordinates its internal investigative activity with the Department of Homeland Security's Office of the Inspector General, U.S. Immigration and Customs Enforcement's Office of Professional Responsibility, the Federal Bureau of Investigation, and numerous other Federal, state and local law enforcement authorities.

Additional support to this subprogram is provided by the Office of Field Operations' Analytical Management Systems Control Office (AMSCO). AMSCO works to identify potential misconduct issues among frontline CBP personnel working in the air, land, and sea environments. The AMSCO team applies sophisticated analytical techniques to scan massive amounts of data for transaction anomalies and patterns indicative of potentially corrupt behavior. AMSCO performs national analysis of CBP operations using a multitude of private and public data sources. AMSCO detects unintended consequences resulting from deployment of new technologies and coordinates with partnering CBP offices to remedy the vulnerability.

## Workforce Development

The Office of Training and Development (OTD) is responsible for the centralized leadership and direction of all training programs for the CBP workforce. OTD manages CBP's National Training Plan (NTP), which prepares employees to carry out the core missions of CBP by providing basic and advanced training based on identified agency and organizational requirements.

OTD establishes and upholds standards for designing, developing, delivering, and evaluating training to ensure the agency's training programs are transparent, accountable, and legally defensible. OTD has also developed and maintains a robust distance learning program (the Virtual Learning Center) that enables CBP to deliver hundreds of training courses to CBP personnel in an efficient and cost effective manner.

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## IT Management

The Office of Information and Technology (OIT) provides integrated, comprehensive technical support that facilitates the CBP and DHS missions. OIT is responsible for developing, acquiring, testing, and maintaining legacy and new government and commercial off-the-shelf applications, and also for ensuring the reliable performance of CBP's data infrastructure, which transmits critical data to and from CBP and DHS data centers to CBP agents and officers on the front-line. CBP's Information Technology applications support the CBP enterprise nation-wide.

While much of CBP's information technology is included in other lines of business, within this sub-program of Enterprise Business Services OIT is responsible for help desk services, operation of classified voice and data systems, data center migration management, desktop services, information management systems, and systems planning, development, management, and maintenance.

## Policy, Planning, and Governance

Numerous CBP offices provide support to the policy, planning, and governance sub-program within Enterprise Business Services.

Within the Office of the Commissioner, the Office of Diversity and Civil Rights (DCR) is responsible for ensuring diversity and inclusion as well as overseeing compliance with applicable civil rights and civil liberties law. The Office of the Executive Secretariat (OES) ensures appropriate and expeditious action on all requests for information, executive correspondence, and official memoranda addressed to the Commissioner and other CBP and DHS officials. The Office of Strategic Integration (OSI) represents the Commissioner's intent with enterprise-wide focus, and manages CBP's strategic integration portfolio. The Office of Program Development (OPD) develops and oversees the Planning, Programming, Budgeting, and Accountability (PPBA) framework for managing resources. The Office of Policy and Planning (OPP) provides leadership, direction, and advice regarding CBP's overall policy development and implementation and implements CBP's Strategic Management Framework (SMF) to fully integrate CBP's investment, resource, and program management. The State, Local, and Tribal Office (SLT) is responsible for advising the Commissioner and program offices regarding the impact of CBP policies and initiatives on state, local, and tribal stakeholders. The Office of Trade Relations (OTR) provides timely information about CBP trade policy to the international community and conducts formal outreach efforts by hosting regional and local trade conferences.

OA provides a wide range of activities that indirectly support agency operations and functions. OA ensures that certification levels are maintained by employees who serve as technical liaisons between CBP and private contractors as part of the Contracting Officer Technical Representative (COTR) program. OA develops, deploys, and maintains sourcing strategies to ensure efficient and effective sourcing of goods and services while supporting strategic sourcing and process improvement efforts within CBP and DHS. OA develops and provides oversight of core business processes, business process improvement, program and organizational performance metrics, management, and scorecard management. OA also provides oversight and coordination of efficiency reviews, program

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management reviews, and program management structural development and change management of multiple CBP asset and administrative programs.

OA provides effective and efficient payroll services for the unique pay circumstances encountered by CBP personnel, as well as efficient and timely payment for employee travel vouchers, and for products and services that are acquired from private companies or other government agencies.

OA provides print and print related services for CBP and other DHS components. This program acquires all the necessary forms and paperwork such as the CBP Declaration and is also responsible for procuring all of the Agency's travel related signage, which is found at all land, air, and sea ports of entry. OA provides guidance to the Government Printing Office (GPO) for the design and production of the Trusted Traveler Program cards. OA is also responsible for records management policy.

The Office of Chief Counsel (OCC) is CBP's in-house law office and chief legal officer and reports to the DHS General Counsel through a Deputy General Counsel. OCC also serves as the CBP Ethics Officer and is the principal legal advisor to the Commissioner, CBP's senior executive management, and CBP officers and employees in their official capacities. OCC attorneys provide legal advice to, and legal representation of, CBP officers in matters relating to the activities and functions of CBP. OCC provides comprehensive legal services to CBP, including reviewing proposed administrative actions to ensure compliance with legal requirements; preparing formal legal opinions; preparing or reviewing responses in all court actions, civil or criminal, that involve CBP; assisting with the collection and protection of revenue; representing the agency in administrative and judicial forums, including arbitration, the U.S. Court of International Trade, federal district and appellate courts, and immigration court proceedings; reviewing contractual, procurement, and real property actions; reviewing legislative proposals; and training CBP officials in myriad law enforcement, trade and ethics subjects.

The Office of Public Affairs (OPA) is responsible for informing and managing the flow of information to the public about CBP and its missions, accomplishments, and ongoing operations. This includes oversight and management of external and internal communications, responding to media inquiries, writing speeches, coordinating speaking events, developing educational programs to increase public preparedness, and managing organizational identity.

The Office of Congressional Affairs (OCA) serves as a conduit between DHS, CBP, and the Congress. OCA performs the vital work of advancing CBP's core mission priorities in the legislative arena by facilitating effective and timely information exchange and analysis between its stakeholders in three critical areas: Enforcement, Trade and Agriculture, and Appropriations and Management.

The Office of International Affairs (INA) is responsible for coordinating foreign initiatives and programs such as partnership programs and overseas program which support the United States Government's security objectives in areas of anti-terrorism, border security, export controls, non-proliferation, and customs and immigration policy.

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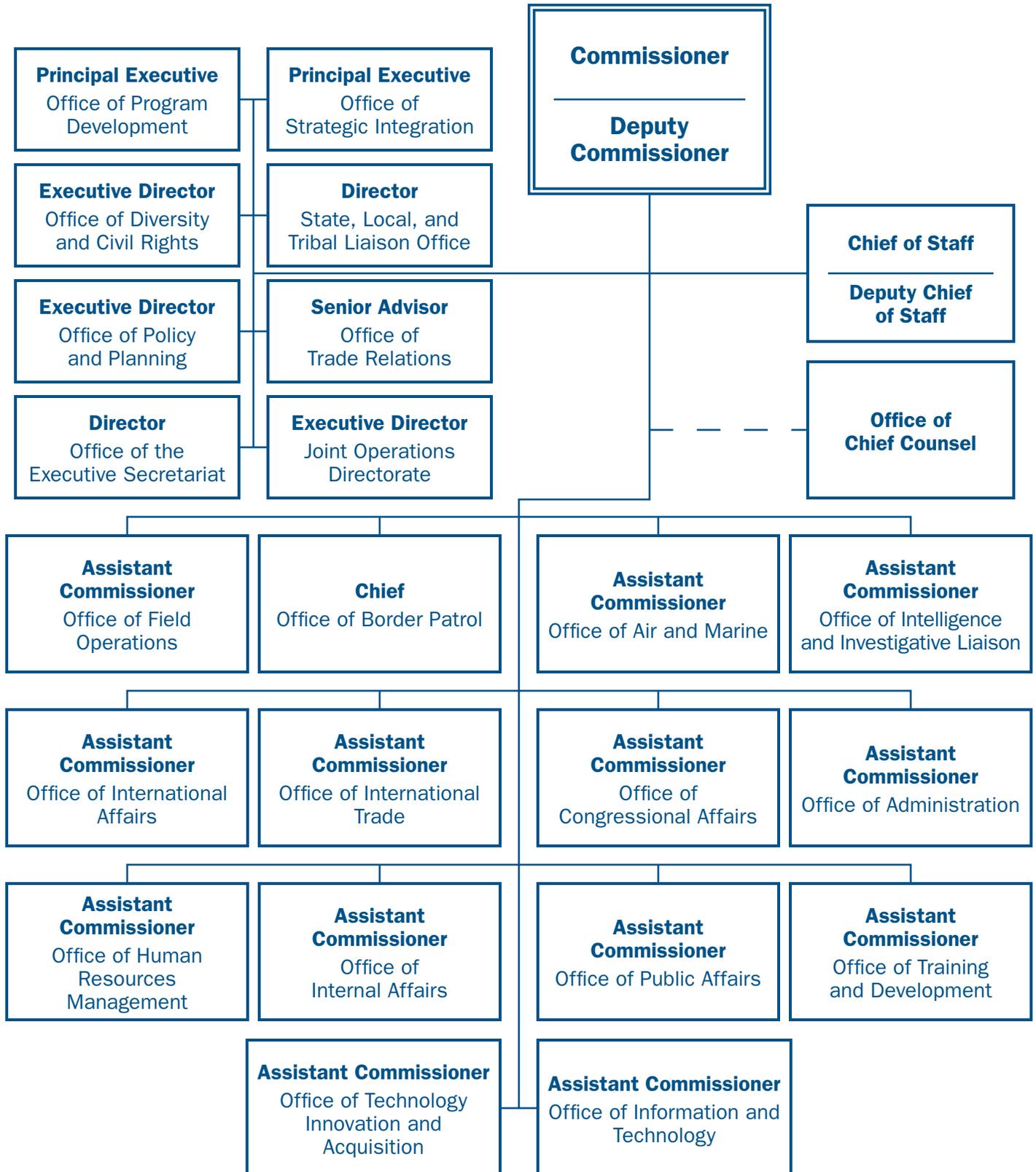
## Looking Ahead

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

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

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## CBP Organization



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## Headquarters

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

**Deputy Commissioner:** Mr. David V. Aguilar was named Deputy Commissioner on April 11, 2010, having previously served as Acting Commissioner from December 30, 2011 to August 29, 2012. Mr. Aguilar is responsible for providing leadership and executive-level direction to 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):** 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 office components, DHS, and OGA. The COS provides advice and counsel to the Commissioner in defining priorities to accomplish CBP mission and goals.

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

**Office of Program Development (OPD):** Is responsible for transitioning CBP from a budget-centric process to a planning and programming process that is driven by goals and objectives. OPD was established in FY 2011, and is responsible for integrating and executing the Planning, Programming, Budgeting, and Accountability (PPBA) process within CBP. This includes: Establishing repeatable processes and structures, establishing priorities and capabilities required to achieve a strategy, making informed, cross-cutting operational and resource decisions consistent with DHS and Commissioner priorities and goals, increasing transparency through more detailed, focused budget, and performing and monitoring the achievement of goals and the spending of plans.

**Office of Strategic Integration (OSI):** Is responsible for facilitating the development of a mature strategic integration culture across CBP and all its stakeholders, both internal and external. OSI was established in FY 2011, and is responsible for managing the integration of the CBP portfolio of strategies, ensuring the maximization of value, balance in approach, alignment to business strategy, and balance in resource requirements.

**Office of Diversity and Civil Rights (DCR):** Is responsible for developing and administering all CBP programs and activities necessary to ensure compliance with the Federal anti-discrimination laws, regulations and policies, and civil rights and civil liberties requirements necessary to facilitate lawful individual travel and trade across the United States borders, while ensuring national security and economic prosperity. DCR implements initiatives that sustain, retain, and advance a highly qualified ethical workforce that attracts the most qualified candidates that

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America has to offer. In addition, DCR ensures that CBP is a progressive champion of diversity and inclusion by providing activities and programs that celebrate and honor all individuals.

**Office of State, Local, and Tribal Liaison (SLT):** Advises the Commissioner, Deputy Commissioner, and program offices regarding the impact of CBP policies and initiatives on state and local stakeholders. SLT also acts as the primary conduit for information to, and guidance from, the DHS Office of Intergovernmental Affairs. SLT informs state and local stakeholders of current and proposed CBP programs, assists these stakeholders in addressing concerns with CBP programs, and assist in building and maintaining partnerships between CBP and state and local governments.

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

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

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

**Office of Joint Operations Directorate (JOD):** Is responsible for facilitating and strengthening the strategic capabilities of CBP for collaborating, coordinating, and conducting joint field operations. The JOD was established in FY 2011 and under the authority and at the discretion of the Commissioner, the JOD is tasked to develop CBP joint operational doctrine, provide direction and oversight, and act in concert with CBP field commanders. The JOD supports the development and maturation of joint/unified commands, ensures the synchronization of resources and leverages the expertise of inter/intra-agency partners and HQ personnel. The incident management functions within the JOD include the development and oversight of the CBP corporate response to recover from any natural or

# Overview of CBP

man-made disaster. The development of long-term strategies and operational plans rooted in the use of technology and new efficiencies to defeat potential threats to border security, trade, and travel are integral to the JOD mission.

## Component Organizations and Field Structure

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

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

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

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

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

**Office of International Affairs (INA):** Coordinates and supports CBP's foreign initiatives, programs, and activities. To support CBP's mission, INA establishes essential partnerships with U.S. government agencies, foreign administrations, and international organizations. Through its 21 Attaché and 6 Advisory office locations INA coordinates

# Overview of CBP

CBP's international engagement efforts by implementing programs and initiatives that promote border enforcement best practices and capacity building globally.

**Office of International Trade (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 textile transshipment and intellectual property rights infringement. OT directs CBP risk-based investigation detection and prevention programs designed to identify the importation of contaminated agricultural products and goods that present health or safety risks, and products requiring protection from unfair trade practices. OT streamlines the flow of legitimate shipments and fosters corporate self-governance to achieve compliance with trade laws, regulations, and international trade agreements. Finally, OT provides the legal tools to promote facilitation and compliance with customs, trade, and border security requirements by issuing CBP regulations, binding rulings and decisions, compliance publications, and by offering training and outreach on trade laws and regulations.

**Office of Congressional Affairs (OCA):** Coordinates all CBP congressional and legislative activities to ensure that the full range of policy, operational, technical, and programmatic aspects are appropriately considered. These functions and activities include work performed in the congressional arena, relationships with Members of Congress and their staffs, and requests for information, briefings, meetings, hearings, tours, or other forms of assistance received from Congress.

**Office of Administration (OA) and Chief Financial Officer (CFO):** Oversees all financial operations, procurement, asset management, and budget activities within CBP. OA is responsible for administering \$13.7 billion that is budgeted annually for law enforcement and trade operations and processing collections of \$39.4 billion in custodial and entity revenue annually. OA is responsible for administering the broad range of financial management activities delineated under the CFO Act of 1990, including accounting, budgeting, procurement, asset management, financial systems, and financial management.

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

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

# Overview of CBP

import processing and systems development. OIT also serves as the steward for DHS OneNet Network Operations, Security Operations, and Network Engineering.

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

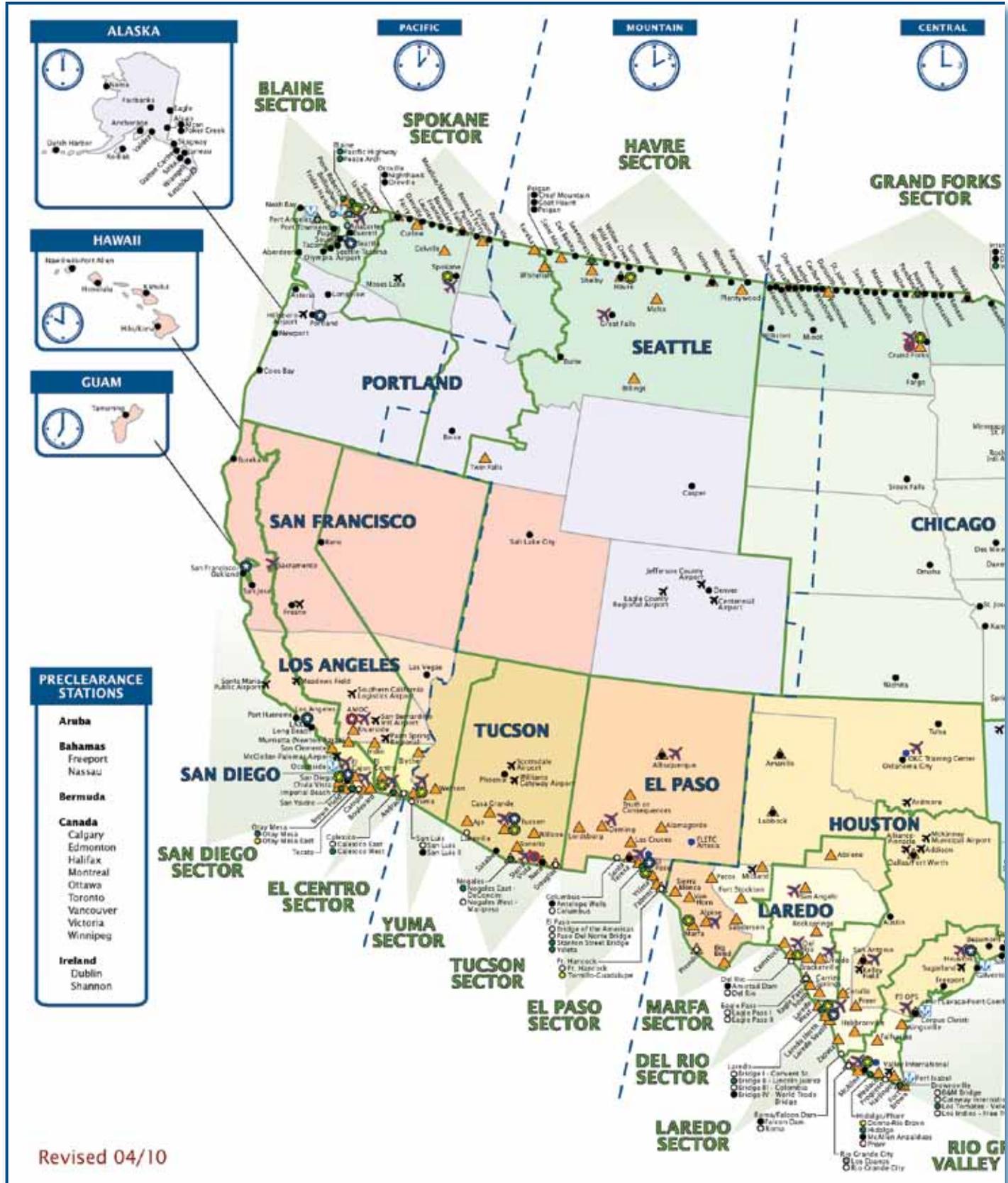
**Office of Public Affairs (OPA):** Communicates CBP's mission and operations to the agency's chief stakeholders, which includes the American public, foreign nationals who conduct business in the United States, international trade entities, and travelers who cross U.S. borders. Tools used in the national and international public communication process include media outreach and public information campaigns conducted via media events, video, photography, and informational brochures. CBP maintains a public website at ([www.cbp.gov](http://www.cbp.gov)) and a national customer service call center, CBP INFO Center, to address public questions and complaints. OPA also keeps the CBP workforce informed through the CBPnet Intranet site, the weekly emailed news compilation "Frontline News," and mass emails. A bimonthly newsletter, "CBP Today," is distributed to CBP personnel and other stakeholders nationwide.

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

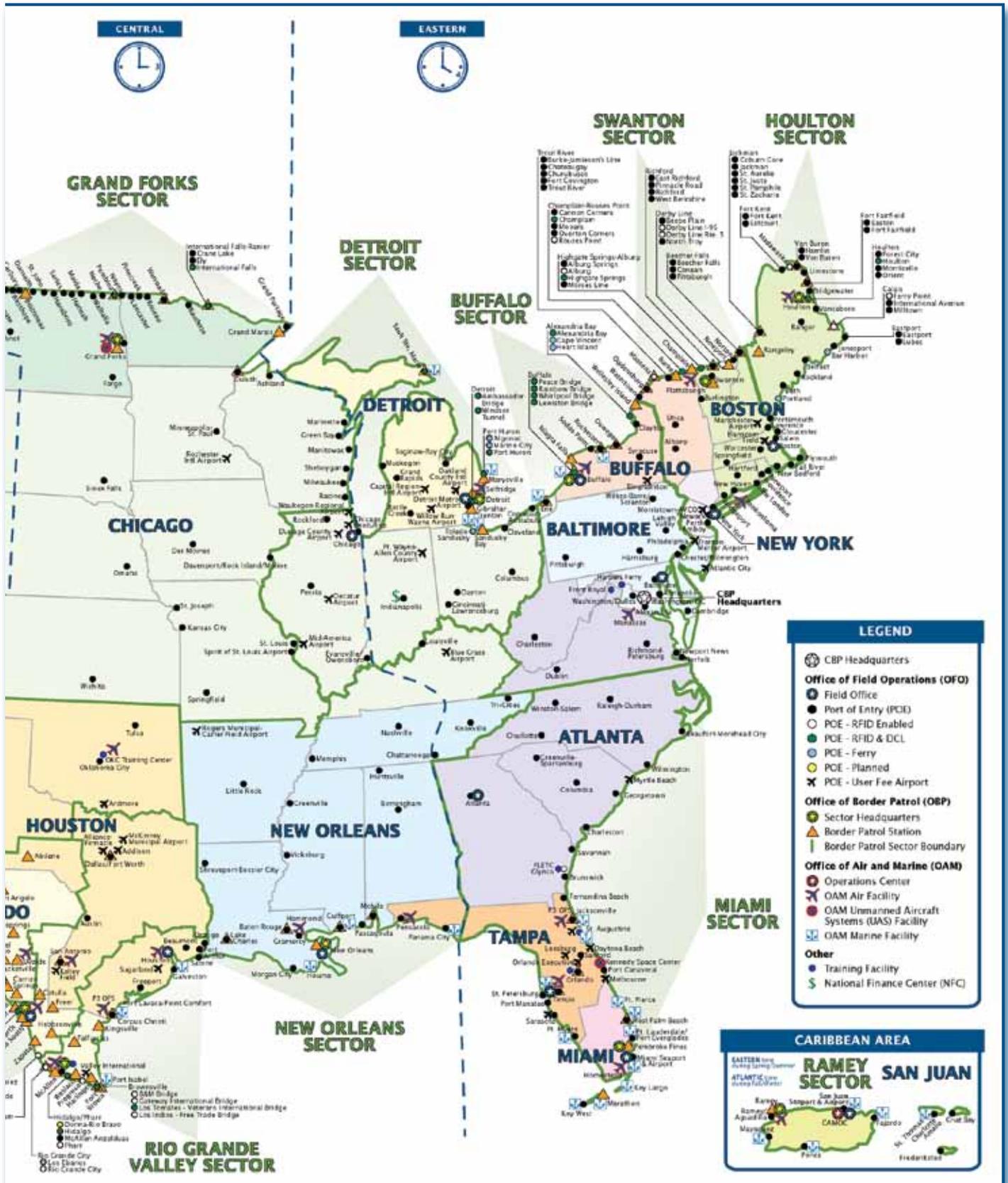
**Office of Training and Development (OTD):** Provides centralized leadership and direction of all CBP training programs for the entire workforce. OTD ensures that all training supports the CBP mission and strategic goals and that the workforce is prepared to meet the challenges faced in the performance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

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# Overview of CBP



# Overview of CBP



# Performance Goals and Results

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

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

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



Long-term level measures are those that cross multiple fiscal years and are not tied to an annual budget. Strategic level measures are used to manage and report accomplishments of CBP strategic goals and objectives, thus demonstrating the value that CBP programs provide to the American people. Management level measures inform internal CBP decision-making processes to determine program priorities, allocate resources, and monitor progress and

# Performance Goals and Results

performance. Operational level measures inform management of the effectiveness and efficiency of individual program operations. Investment level measures are associated with CBP's major capital investments and map to the Federal Enterprise Architecture Performance Reference Model.

## Performance Management

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

CBP uses performance measures to determine if desired results are achieved, thereby indicating the Agencies accomplishments. CBP is dedicated to continuously refining and improving its performance measures. The goal is to ensure that the data it reports internally and externally is useful to senior executives who make programming and funding decisions.

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

Additionally, the strategic goals and objectives in CBP's Missions, Goals, and Priorities, FY 2011–2013 document provided a roadmap of activities necessary to accomplish the Agency's important mission. The Agency identified several strategic areas that would benefit from new outcome-based performance measures and began to develop them. By responding to emerging guidance, CBP will demonstrate program effectiveness in achieving its long-term performance goals through the continuous improvement of performance measures.

## FY 2012 Performance by Mission Set

This section presents a discussion of highlighted FY 2012 performance objectives and related key performance measures for each of CBP's Mission Sets. Additional performance measures and results can be found in the "Performance Section" under "Performance Summary," beginning on page 83.

# Performance Goals and Results

## Mission Set 1: Securing America's Borders

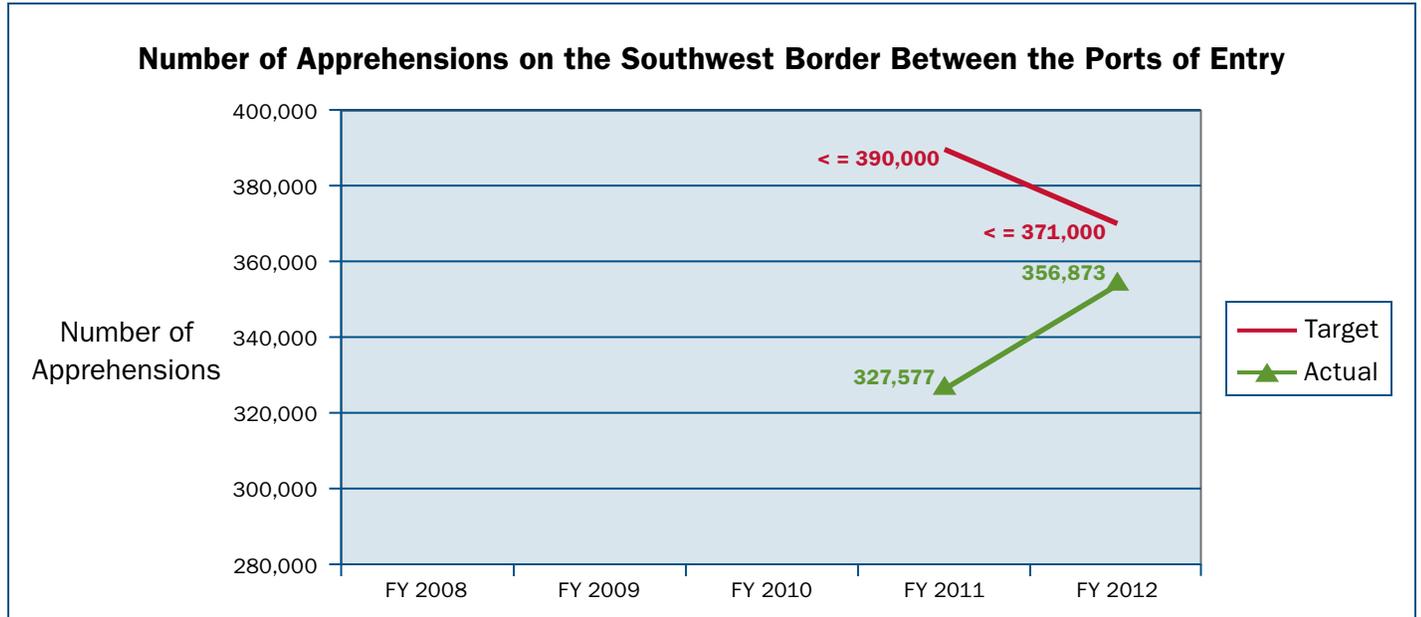
As a frontline border security agency, CBP has a multifaceted and complex mission of protecting the Nation against a multitude of cross-border violations. All CBP efforts to secure the border, including the mission of enforcing the immigration, customs, trade, agriculture, and other laws of the United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

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

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

<b>Performance Measure</b> —Number of apprehensions on the Southwest Border between the ports of entry.					
<b>Description</b>	Protection of our southwest border against threats from illicit cross-border activity is a key element needed to secure our country. This measure calculates the number of apprehensions made of those attempting entry along the southwest border between an official POE. DHS's border security strategy is based on a layered approach of strategically positioning personnel, technology, and defensive infrastructure; developing strong partnerships with law enforcement partners on both sides of the border; and increasing consequences to repeat offenders to provide a deterrent effect.				
<b>KEY HIGHLIGHTS</b>					
<b>Fiscal Year</b>	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
<b>Target</b>	N/A	N/A	N/A	< = 390,000	< = 371,000
<b>Actual</b>	N/A	N/A	N/A	327,577	356,873
<b>Explanation of FY 2012 Results</b>	<b>Target Met</b> - The Border Patrol was successful in meeting its target of maintaining historically low apprehensions along the Southwest Border (SWB) in Fiscal Year 2012. Although the apprehensions have slightly increased from 2011, the Border Patrol has displaced traffic along the SWB, forcing Transnational Criminal Organizations into a constant state of reorganization. This has been accomplished by targeted enforcement and the use of information, integration, and rapid response in order to mitigate risk in high density traffic areas along the SWB, especially in the Tucson Sector, where volume of traffic and apprehensions have been the highest. The intelligence, planning, and operational cycle employed by Border Patrol have allowed the agency to maintain its influence on keeping illegal flow across the border at historically reduced levels, and position itself to continue this influence in the future.				
<b>Recommended Action</b>	N/A				

# Performance Goals and Results



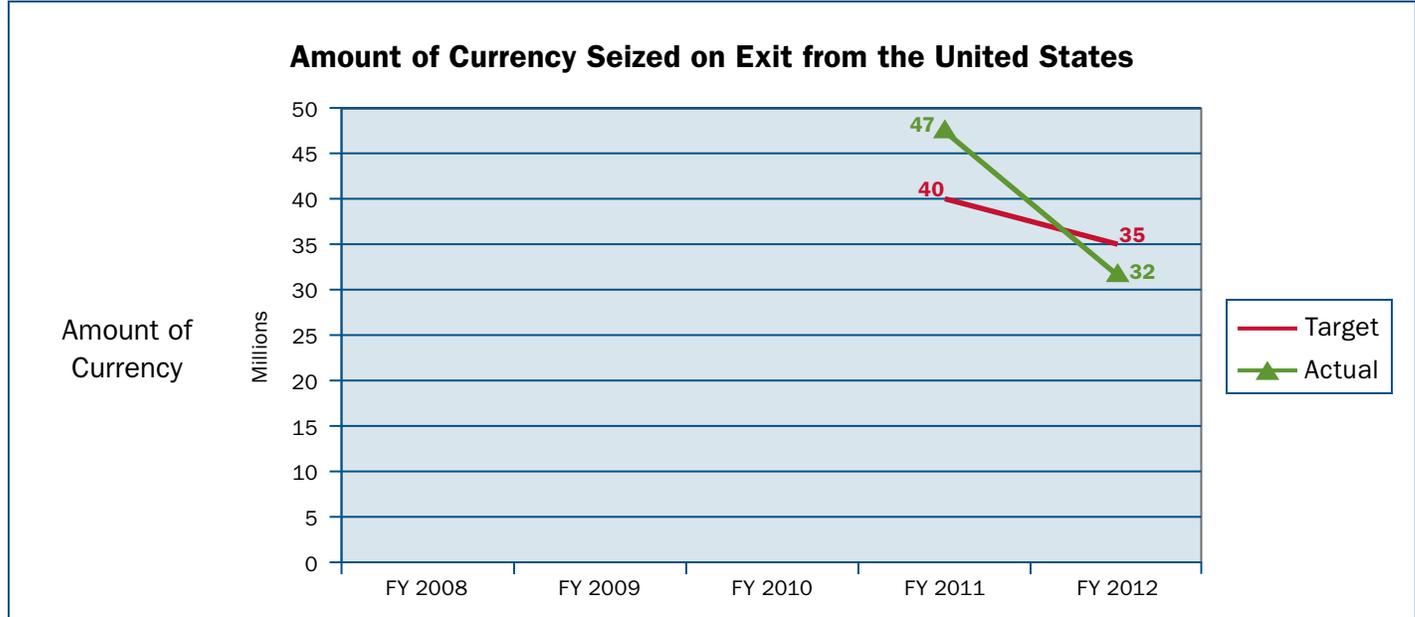
**Performance Measure**—Amount of currency seized on exit from the United States.

**Description** This measure provides the total dollar amount of all currency in millions seized during outbound inspection of exiting passengers and vehicles, both privately-owned and commercial. The scope of this measure covers both the southwest and northern borders and includes all modes of transportation (land, air, and sea).

## KEY HIGHLIGHTS

Fiscal Year	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Target	N/A	N/A	N/A	40,000,000	35,000,000
Actual	N/A	N/A	N/A	47,000,000	31,900,000
<b>Explanation of FY 2012 Results</b>	<b>Target Not Met</b> - Although the fourth quarter is historically the busiest of the year, currency seizures were not sufficient to enable CBP to meet the FY 2012 target.				
<b>Recommended Action</b>	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 Goals and Results



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

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

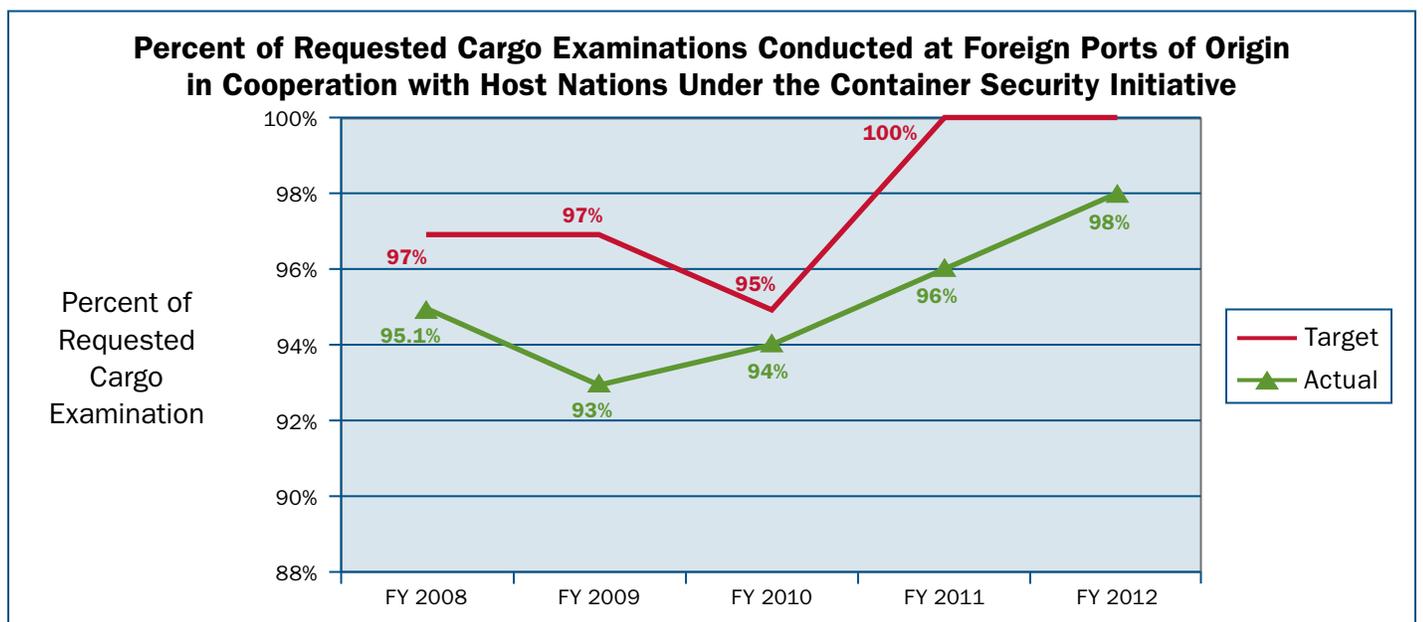
**Performance Objective**—Improve the targeting, screening, and apprehension or seizure of high-risk international travelers and cargo away from the physical border in order to prevent terrorist attacks and criminal activity while expediting the processing of legitimate travelers and cargo.

CBP's ability to expeditiously process people, products, and conveyances is dependent on its ability to identify high-risk travelers and goods for inspection. High-risk targeting allows law-abiding travelers and commerce to move without unnecessary delay. CBP applies its targeting methods against data to identify which passengers or shipments need to be segregated for closer inspections. CBP uses the ATS and associated databases to provide CBP officers (including those stationed overseas) with advance notice of travelers and goods arriving at U.S. POEs,

# Performance Goals and Results

allowing the officers to crosscheck the passenger and cargo manifests against databases such as TECS and the National Crime Information Center.

<b>Performance Measure</b> —Percent of requested cargo examinations conducted at foreign ports of origin in cooperation with host nations under the Container Security Initiative.					
<b>Description</b>	The measure is an indication of the extent to which potential higher-risk cargo is satisfactorily inspected before it leaves the foreign port of origin. This measure is the percent of requested container examinations resolved or conducted by foreign Customs officials meeting CBP examination standards and requirements divided by the total number of examinations requested by CBP Container Security Initiative (CSI) officials. These examinations would otherwise have taken place at U.S. ports of entry.				
<b>KEY HIGHLIGHTS</b>					
<b>Fiscal Year</b>	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
<b>Target</b>	97.00%	97.00%	95.00%	100.00%	100.00%
<b>Actual</b>	95.10%	93.00%	94.00%	96.00%	98.00%
<b>Explanation of FY 2012 Results</b>	<b>Target Not Met</b> - The Container Security Initiative relies on the voluntary cooperation of host nation customs officials.				
<b>Recommended Action</b>	CBP continually works with the host ports to resolve examination issues as they arise and works with foreign governments to increase the percentage of conducted examinations.				



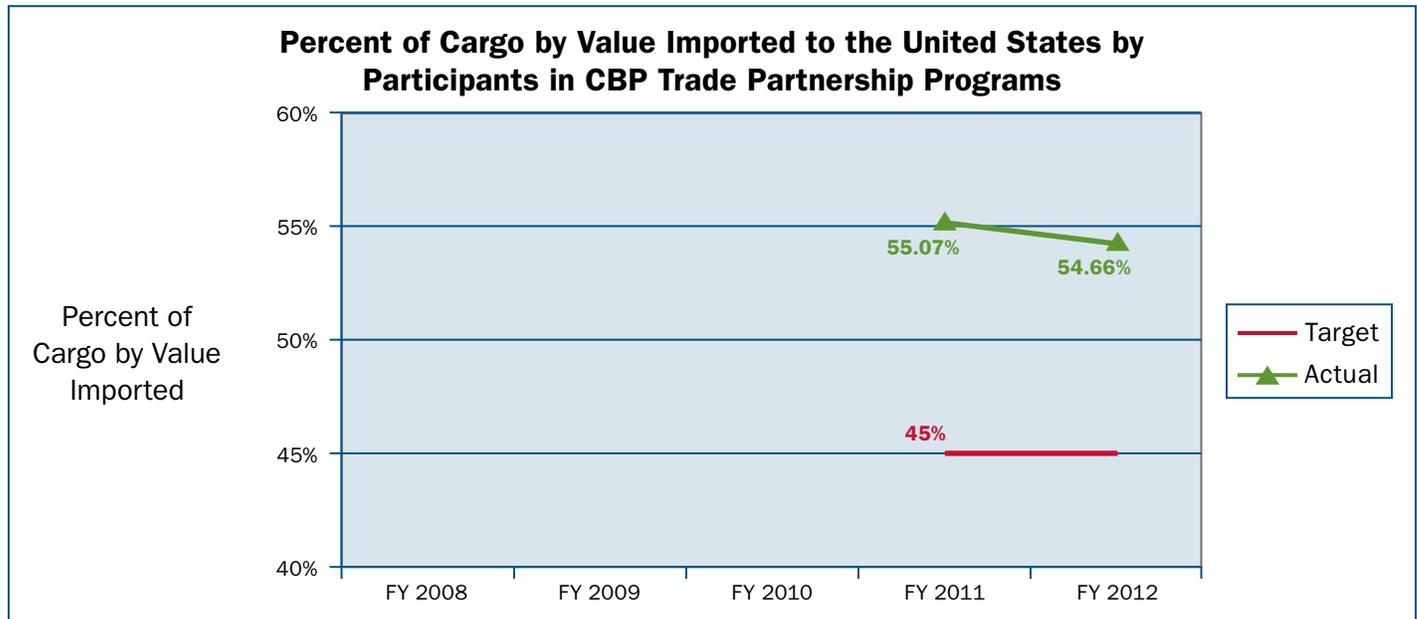
# Performance Goals and Results

**Performance Measure**—Percent of cargo by value imported to the United States by participants in CBP trade partnership programs.

**Description** This measure describes the percent of all cargo that is imported from CBP trade partnership programs based on the value compared to total value of all imports. Partnership programs include both Customs-Trade Partnership Against Terrorism (C-TPAT) and Importer Self Assessment (ISA). CBP works with the trade community through these voluntary public private partnership programs, wherein some members of the trade community adopt tighter security measures throughout their international supply chain and in return are afforded benefits. A variety of trade actors are included in these partnership programs, such as importers, carriers, brokers, consolidators/third party logistic providers, Marine Port Authority and Terminal Operators, and foreign manufacturers.

## KEY HIGHLIGHTS

Fiscal Year	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Target	N/A	N/A	N/A	45.00%	45.00%
Actual	N/A	N/A	N/A	55.07%	54.66%
Explanation of FY 2012 Results	<b>Target Met</b> - CBP participated in domestic and international trade seminars and conferences in furtherance of our outreach efforts to the trade community during FY 2012. These efforts resulted in new trade program participants.				
Recommended Action	N/A				



# Performance Goals and Results

<b>Performance Measure</b> —Percent of inbound high-risk cargo transported by air, land, or sea that has been screened and entry status is resolved prior to or during processing at a U.S. POE.					
<b>Description</b>	This measure gauges the percent of international cargo coming to the United States via air, land, and sea identified as potentially high-risk using the Automated Targeting System (ATS) that is screened and has entry status resolved prior to leaving the port of entry. Screening and resolving potentially high-risk cargo prior to departure from the port of entry ensures the safety of the U.S. public and minimizes the impact to the trade through the effective use of risk-focused targeting.				
<b>KEY HIGHLIGHTS</b>					
<b>Fiscal Year</b>	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
<b>Target</b>	N/A	N/A	N/A	FOUO	FOUO
<b>Actual</b>	N/A	N/A	N/A	FOUO	FOUO
<b>Explanation of FY 2012 Results</b>	<b>Target Not Met</b> - This program did not meet its target for FY 2012. This measure gauges the overall percent of inbound cargo identified as potentially high-risk by the Automated Targeting System that is assessed or scanned prior to lading or at arrival at a U.S. port of entry. End of year reporting includes results for Q3 and Q4 in the sea and air environments only. Reporting this measure in the land environment continues to be a challenge due to data accessibility and system data exchange issues.				
<b>Recommended Action</b>	The Office of Field Operations is working with the Targeting and Analysis Systems Program Office to develop a standard methodology to assemble this measure across all modes of entry.				

## Mission Set 3: Sustaining Investment in People and Capabilities

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

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

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

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

# Management Assurances

## Overview

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

## Federal Managers' Financial Integrity Act

In accordance with FMFIA and OMB Circular A-123, CBP has evaluated its management controls and financial management systems for the fiscal year ending September 30, 2012. As a result of its annual self-assessment process and GAO and OIG reviews for FY 2012, CBP is reporting 1 material weakness and 3 instances of nonconformance.

### **Custodial Revenue and Drawback Controls**

CBP's Automated Commercial System (ACS) has inherent limitations in detecting and preventing excessive drawback claims; therefore, CBP relies on a risk-based approach to review drawback claims. The strengthening of drawback controls is dependent upon system improvements and legislation to simplify the drawback process and to revise documentation retention requirements for the trade. Weaknesses were noted in the monitoring of Bonded Warehouse and Foreign Trade Zones, as well as the tracking of In-Bond Cargo. The ATS Compliance Module was implemented in September 2012 to increase oversight and monitoring of the In-Bond Program, thus verification and validation procedures were not completed during FY 2012 to determine whether or not this system is designed or operating effectively.

### **Financial Systems Security**

During FY 2012, CBP completed remediation work on 15 of the 36 findings issued in the FY 2011 Financial Statement Audit. CBP reviewed the procedural changes and concluded that the weaknesses had been remediated. Additionally, there were 25 new IT findings in the FY 2012 Financial Statement Audit for a total of 46 IT findings. CBP will continue to remediate IT findings in FY 2013.

# Management Assurances

## Core Financial Systems

The remaining open issues relate to updating the Accounts Receivable module to adequately interface trade revenue activity with SAP, and to integrate data associated with the items held in use, excess, obsolete, and unserviceable category in the inventory tracking system with SAP at the transaction level.

## Information Technology Infrastructure

A technical assessment of CBP's data center and network technology infrastructure was performed in FY 2012. The assessment identified infrastructure vulnerabilities. Funding to help remediate these vulnerabilities was received in FY 2012 and remediation efforts are underway.

## DHS Financial Accountability Act

The DHS Financial Accountability Act requires an assertion of internal controls over financial reporting. CBP's assessment of internal control over financial reporting included performing tests of operational effectiveness throughout FY 2012 and verification and validation of corrective action effectiveness as of September 30, 2012.

## Tests of Operational Effectiveness

- **Budgetary Resources Management** - continued to follow updated policies and procedures to improve timeliness of monitoring the period of performance of open contracts/obligations; continued to follow policies and procedures to evidence review of the reconciliation of Standard Form (SF)-132 to SF-133; and enhanced communication between the Office of Administration's Financial Operations Directorate and Budget Directorate when completing transfers;
- **Payment Management** - developed training for goods receivers to emphasize the importance of timely entry of goods and services received, and continued to send reminder communication to goods receivers to emphasize the importance of timely entry of goods and services received; and
- **Human Resources and Payroll Management** - updated policies and procedures related to payroll reconciliation and quarterly Department of Labor chargeback estimate.

## Verification and Validation of Corrective Actions

- **Asset Management** - updated procedures, implemented additional post-transaction reviews, and developed an alternative goods receipt form to address asset addition transactions; implemented an additional review of asset settlements; updated procedures for determining percent of completion accruals on construction projects; issued new procedures for settling personal property assets created from construction projects; revised and released a new Personal Property training course for all local property officers; issued the revised Personal Property Asset Management Handbook (PPAMH); and began tracking and communicating retirement/disposal performance metrics; and

# Management Assurances

- **Revenue and Receivables Management** - continued to review and refine the Drawback Compliance Measurement (DCM) program, and worked on incorporating pre-liquidation sampling into the sampling methodology; implemented the Automated Tracking System (ATS) Compliance module to enhance Headquarters' monitoring capabilities for In-Bond cargo; and enhanced its oversight and monitoring of the Trade Compliance Measurement (TCM) program through implementing updated policies and procedures to the field.

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

## Federal Financial Management Improvement Act

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

## Federal Information Security Management Act

FISMA requires agencies to conduct an annual self-assessment review of their IT security programs and to develop and implement corrective actions for identified security weaknesses and vulnerabilities. CBP has completed a comprehensive self-assessment for FY 2012 and can state with reasonable assurance that the IT security controls are in compliance with FISMA, with the exception of the material weakness previously discussed.

# Systems and Controls

## Overview

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

**Data Systems and Controls:** Performance data for the planned performance measures are generated by automated management information and workload measurement systems and reports as a byproduct of day-to-day operations. All levels of management routinely monitor the data systems and controls. CBP management has reviewed the performance measurement data for FY 2012 and has determined, with reasonable assurance, that the data is complete, accurate and reliable.

**Audit of the FY 2012 CBP Consolidated Financial Statements:** To assist the Department in complying with the DHS Financial Accountability Act of 2002, the DHS OIG engaged independent auditors, KPMG LLP, to audit CBP's consolidated financial statements (Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, Combined Statements of Budgetary Resources, and Consolidated Statements of Custodial Activity), hereinafter referred to as the "financial statements." The objective of the audit was to determine whether CBP's financial statements are fairly presented in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. The Independent Auditors' Report can be found on page 146.

## Management Inspections

As part of its oversight role to promote the integrity, effectiveness, and efficiency of CBP programs and operations, the Office of Internal Affairs, Management Inspections Division (MID), performs management inspections that complement operational monitoring activities performed by CBP component offices. As part of an integrated inspections program, MID performs office inspections, program evaluations in the areas of core management responsibilities and control activities susceptible to financial, technological, and/or physical vulnerabilities and other analytical assessments of operational or management issues.

MID's work reflects a proactive approach to identifying areas of potential vulnerability or conditions that could hinder the successful accomplishment of CBP operational goals and objectives. During FY 2012, MID issued a total of 33 reports, presenting CBP executive managers with 956 recommendations to address operational, financial or administrative deficiencies identified during inspection activity.

# Systems and Controls

## Self-Inspection Program

The Self-Inspection Program (SIP), administered by the Office of Internal Affairs, MID, is one of the mechanisms through which CBP monitors agency performance, the adherence to established operational requirements, and the accomplishment of strategic goals and program objectives. The SIP promotes management accountability and strengthens the oversight of programs and operations. SIP also helps CBP meet Federal internal controls requirements established by the Federal Managers' Financial Integrity Act, OMB Circular A-123, and the DHS Financial Accountability Act. Under SIP, CBP managers and supervisors annually conduct self-assessment activities requiring them to verify that agency programs and operations are being implemented properly and effectively. In conducting the self-assessments, CBP managers report on the implementation of policies and procedures applicable to the operational, financial, and administrative functions reviewed through SIP.

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

On a national level, the analysis of self-inspection results allows executive managers and national program managers to gauge the level of compliance with critical program management controls; identify programmatic issues that require national attention; and provide appropriate guidance to CBP offices and managers. For the current reporting cycle, more than 3000 managers in approximately 700 CBP Headquarters and Field Offices performed self-assessment activities researching, certifying, and/or approving the results of office self-inspections. CBP managers completed 17,581 self-inspection worksheets by answering a total of 108,477 questions.

## Audit Management and Liaison

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

In FY 2012, CBP had 139 ongoing GAO and OIG audits. Of these audits, GAO initiated 38 new audits (46 audits were carried over from previous years) and issued 43 reports containing 21 recommendations. DHS OIG initiated 21 new audits (34 audits were carried over from previous years) and issued 27 reports containing 49 recommendations. As of the end of FY 2012, CBP has 169 open recommendations.

# Financial Management

## Overview

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

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

For FY 2012, SAP financial software continues to be used by CBP. 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. SAP integrates business processes and reporting within one system, thereby eliminating unnecessary data entry, ensuring data accuracy, and enabling single system reporting and analytical reporting. SAP ensures that CBP complies with Federal Government standards and regulations for financial management systems. This single integrated solution supports all program types eliminating data redundancy and inefficiencies.

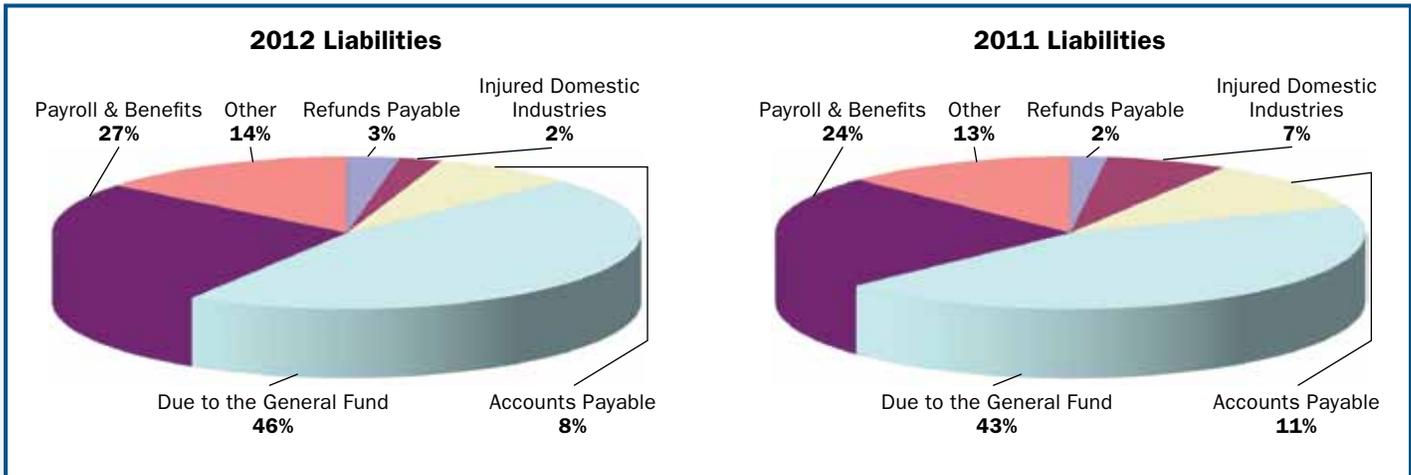
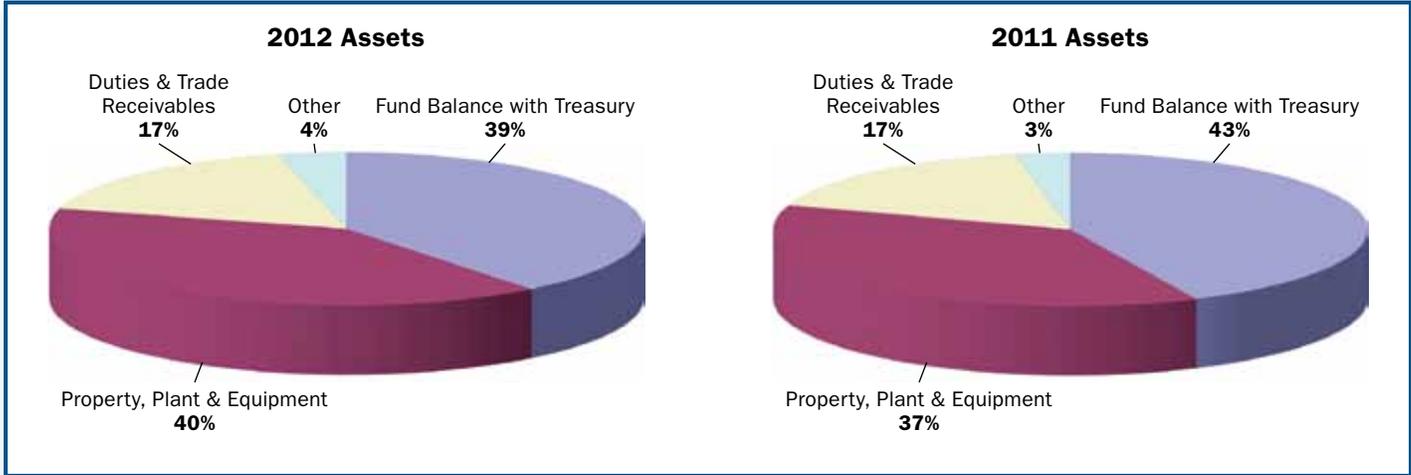
## Overview of the Financial Statements

The financial statements and footnotes appear in the "Financial Section" of this report on pages 96 through 140. The financial statements have been audited by the independent auditor engaged by the DHS OIG, KPMG LLP, who determined that the financial statements are fairly presented in accordance with GAAP.

### **Consolidated Balance Sheet**

The Consolidated Balance Sheet presents the property owned by CBP (assets), amounts owed by CBP (liabilities), and the amounts of the difference (net position). As of September 30, 2012, total assets were \$15.9 billion, a 2 percent decrease from FY 2011.

# Financial Management

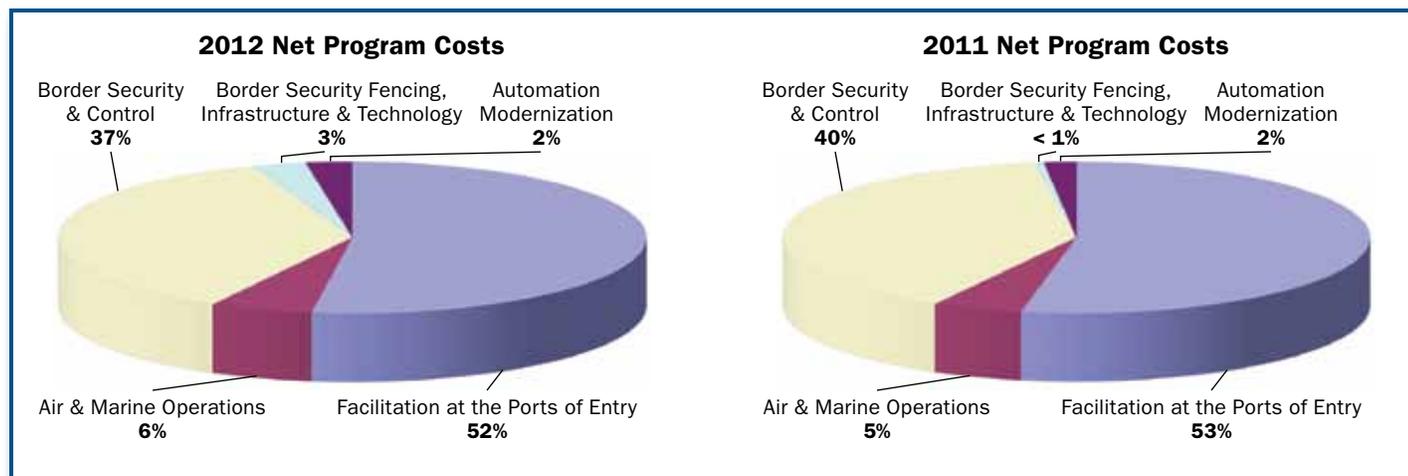


As of September 30, 2012, total liabilities were \$6.1 billion, a decrease of 6 percent over FY 2011. The assets and liabilities charts present a comparison of the major categories as a percentage of the totals for FY 2012 and FY 2011.

## Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost presents the net cost of the major CBP programs as they relate to the goals of the 2009–2014 Strategic Plan. The gross cost less any offsetting revenue for each program equals net cost of operations. Net cost of operations was \$12.3 billion.

# Financial Management



## 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 \$8.4 billion, representing 66 percent of CBP's total financing sources. CBP collected and retained \$3.5 billion of non-exchange revenue, amounting to 27 percent of total financing sources, which was used to fund CBP operations.

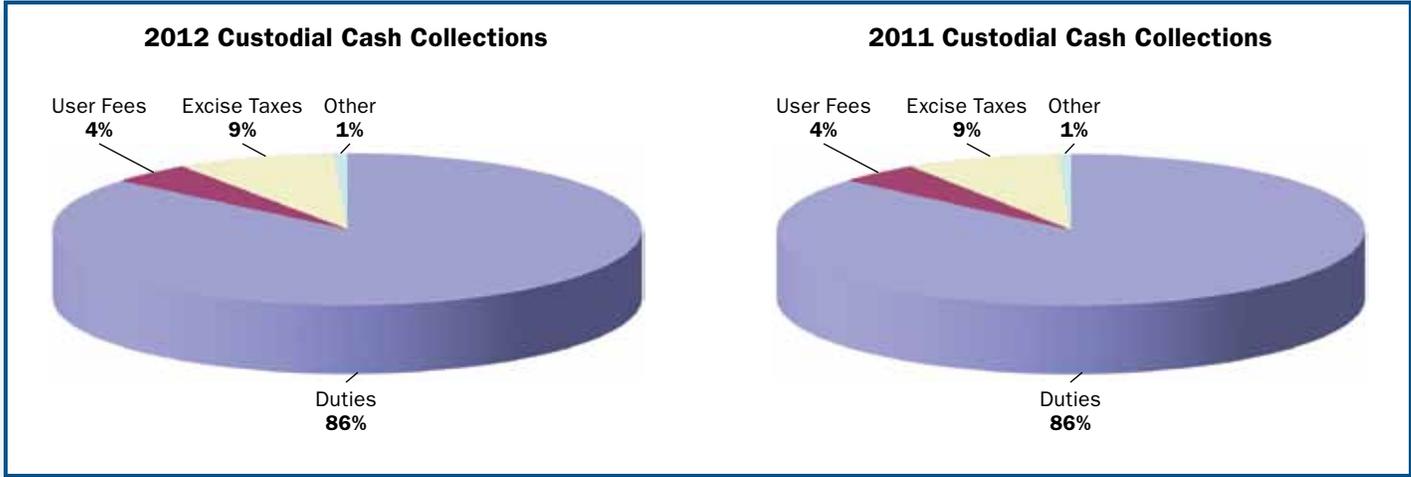
## Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources illustrates how budgetary resources were made available, as well as their status at the end of FY 2012. CBP had \$17.2 billion in budgetary resources, of which \$1.3 billion were unobligated. CBP incurred obligations of \$15.9 billion and recorded \$16.1 billion in gross outlays by the end of the Fiscal Year.

## Consolidated Statement of Custodial Activity

The Consolidated Statement of Custodial Activity presents non-entity (financial activity conducted by CBP on behalf of others) revenue and refunds using a modified cash basis. This method reports revenue from cash collections separately from receivable accruals, and cash disbursements are reported separately from payable accruals. The custodial revenue, using the modified cash basis, for FY 2012 was \$35.6 billion.

# Financial Management



## Limitations of the Financial Statements

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

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

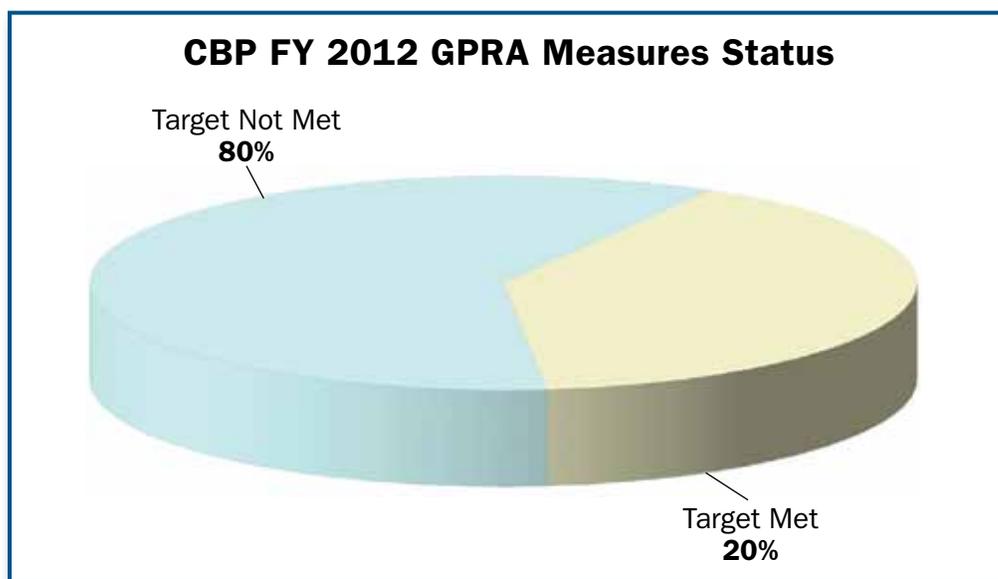


# Performance Section

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

# Performance Summary

The charts below highlight CBP's success in achieving Fiscal Year 2012 performance goals. The performance measures are established as an integral part of CBP's Missions, Goals, and Priorities, FY 2011–2013 document, the Quadrennial Homeland Security Review, and the DHS Future Years Homeland Security Program (FYHSP). The measurement data is collected through various systems and methods and then entered into the FYHSP System for tracking and compiling for management decision-making and year-end reporting.



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

For Fiscal Year 2012, CBP has 10 GPRA performance measures that support CBP's Missions, Goals, and Priorities, FY 2011–2013 document. Of the 10 performance measures, 2 were met and 8 were not met. The performance data presented in this report is in accordance with the guidance provided by OMB. The data integrity discussion in the "Systems and Controls" section of the "Management's Discussion and Analysis" (page 77) describes CBP's commitment to providing quality and timely performance information to increase its value to CBP management and interested parties. CBP managers routinely use this data to improve the quality of program management and demonstrate accountability of program results.

# Performance Summary

## Individual Performance Measure Results

This section describes CBP’s Fiscal Year 2012 results for each GPRA performance measure by the CBP Mission Set and performance objective they support. Although some of the performance measures may relate to more than one performance objective, each performance measure was aligned under the single objective considered most relevant or meaningful. Discussions of the key performance measures can be found in the “Management’s Discussion and Analysis” section under “Performance Goals and Results,” beginning on page 66.

### Mission Set 1: Securing America’s Borders

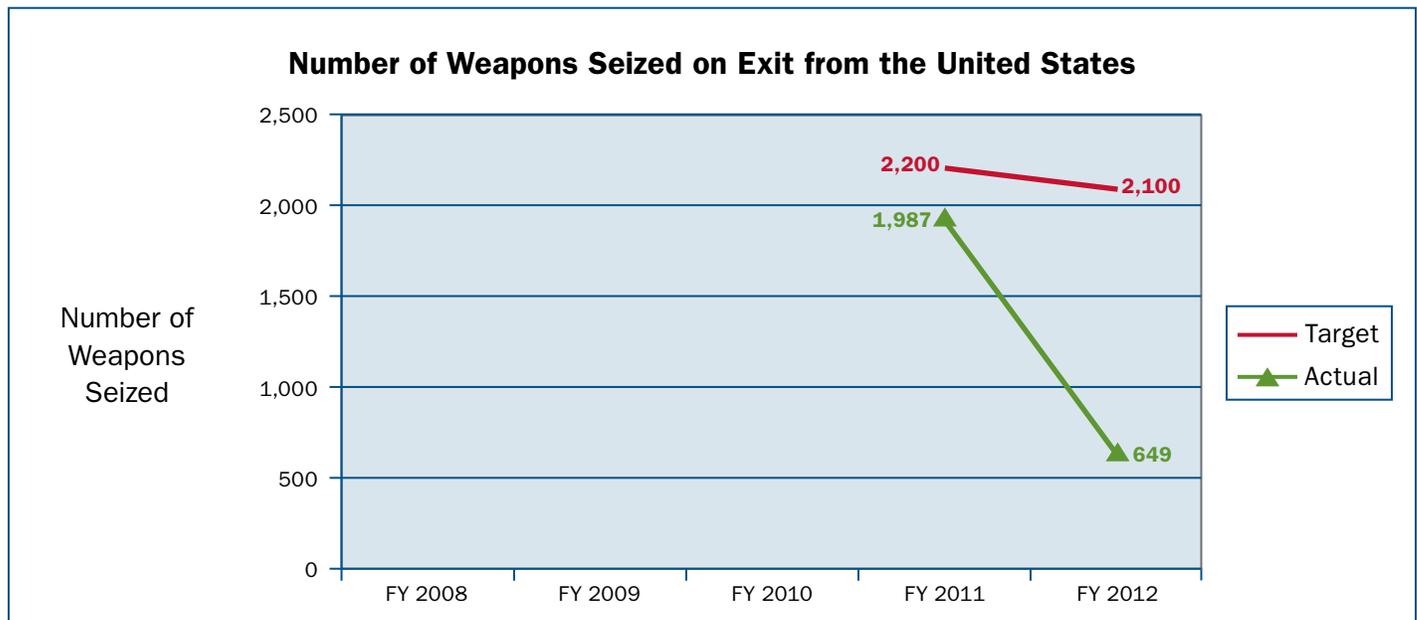
**Performance Objective**—Secure the U.S. border in areas deemed as high priority for terrorist threat potential or other national security objectives.

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

<b>Performance Measure</b> —Number of apprehensions on the Southwest Border between the ports of entry.	
Explanation of FY 2012 Results	<b>Target Met</b> —See page 68 for results and detailed discussion.
<b>Performance Measure</b> —Amount of currency seized on exit from the United States.	
Explanation of FY 2012 Results	<b>Target Not Met</b> —See page 69 for results and detailed discussion.

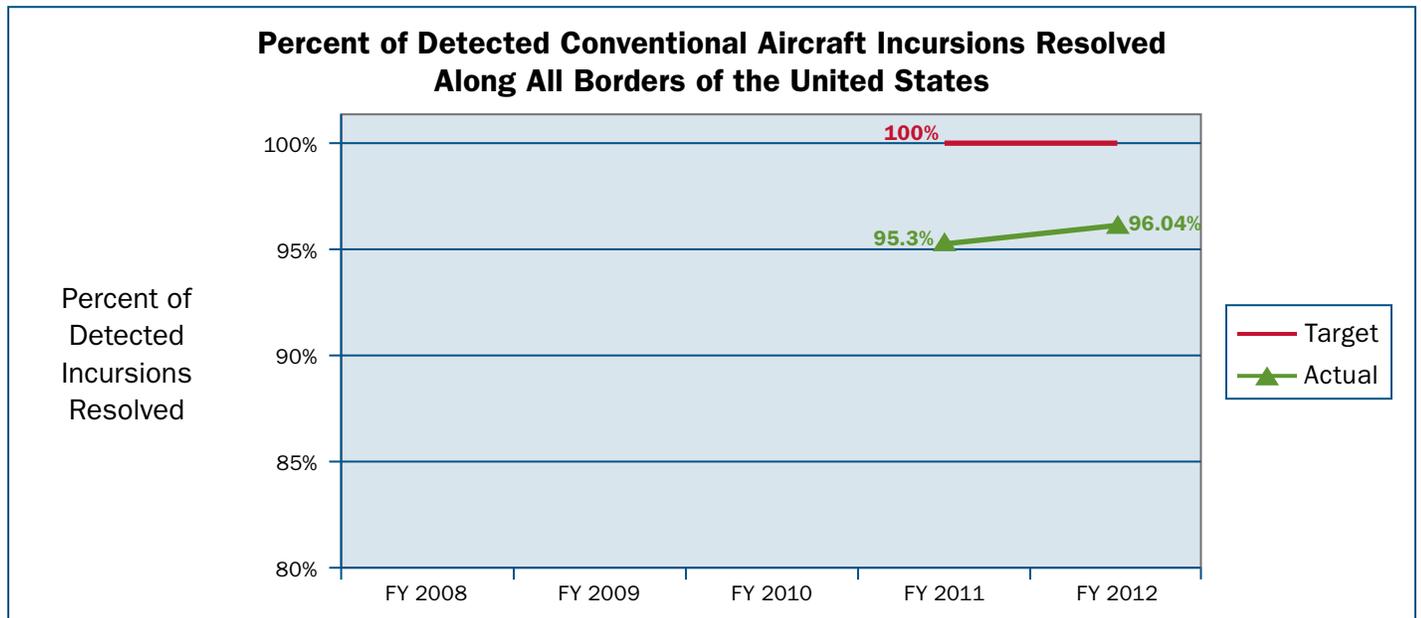
# Performance Summary

<b>Performance Measure</b> —Number of weapons seized on exit from the United States.					
<b>Description</b>	This measure provides the total number of illegal weapons seized during outbound inspection of exiting passengers and vehicles, both privately-owned and commercial.				
<b>KEY HIGHLIGHTS</b>					
<b>Fiscal Year</b>	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
<b>Target</b>	N/A	N/A	N/A	2,200	2,100
<b>Actual</b>	N/A	N/A	N/A	1,987	649
<b>Explanation of FY 2012 Results</b>	<b>Target Not Met</b> —The target for FY 2012 was based upon previous year’s seizures, which included a large number of commercial shipper weapon seizures that did not meet firearms compliance requirements. Due to continuing outbound enforcement operations, together with outreach to shippers to clarify requirements, firearms seizures related to commercial shipper non-compliance have been substantially reduced and commercial firearms shippers are now considerably more compliant. This resulted in a significant drop in outbound-related firearms seizures.				
<b>Recommended Action</b>	CBP will continue to conduct risk-based outbound enforcement operations to identify and seize weapons 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 Summary

<b>Performance Measure</b> —Percent of detected conventional aircraft incursions resolved along all borders of the United States.					
<b>Description</b>	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, Office of Air and Marine (OAM) assets are launched to interdict the aircraft. In most cases, resolution of the aircraft identity is made by the Air and Marine Operations Center (AMOC) working with interagency partners such as the Federal Aviation Administration (FAA). If the incursion is deemed legal, OAM considers the incursion resolved. If not resolved, AMOC—working with our partners including OAM assets—could not identify the target and is thus considered illegal.				
<b>KEY HIGHLIGHTS</b>					
<b>Fiscal Year</b>	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
<b>Target</b>	N/A	N/A	N/A	100.00%	100.00%
<b>Actual</b>	N/A	N/A	N/A	95.30%	96.04%
<b>Explanation of FY 2012 Results</b>	<b>Target Not Met</b> —In FY 2012, there were conventional aircraft detected and classified as border incursions of which most were resolved. Some incursions were not resolved due to the difficulty in resolving incursions visually identified versus being tracked by radar.				
<b>Recommended Action</b>	The Air and Marine program will continue to evaluate and improve tactics, techniques, and procedures to track and resolve visually-detected incursions in order to bring individuals that commit illegal incursions to a successful law enforcement resolution.				



# Performance Summary

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

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

The measures aligned to this Mission Set are focused on showing CBP’s effectiveness in preventing terrorist attacks and criminal activity while expediting the flow of people and goods. In order to achieve the performance objective, CBP has established several programs and initiatives. Established in 2001, Customs-Trade Partnership Against Terrorism (C-TPAT) is a voluntary government-business initiative to build cooperative relationships that strengthen and improve overall international supply chain and U.S. border security. By C-TPAT members complying with established security standards, CBP can expedite members’ shipments and focus on screening high-risk cargo. The “Compliance rate for Customs-Trade Partnership Against Terrorism (C-TPAT) members with the established C-TPAT security guidelines” shows the percent of C-TPAT members that were in compliance with the established security standards during their periodic validation.

CBP has also established the Container Security Initiative (CSI), which is intended to prevent and deter terrorist use of maritime containers while facilitating the movement of legitimate trade. CSI Officers at the foreign ports identify containers that pose a potential threat for terrorism. Once identified, CSI host government officers examine those containers identified as posing a potential risk at the foreign port while our CBP Officers observe. CSI allows the removal or mitigation of high-risk cargo from the supply chain prior to it entering the U.S. and decreases the associated costs to the U.S. by partnering with host nations. The “Percent of requested cargo examinations conducted at foreign ports of origin in cooperation with host nations under the Container Security Initiative” demonstrates the success CBP has had in mitigating potential threats away from the physical border of the U.S.

In addition, CBP has established revenue collection as a Priority Trade Issue (PTI). CBP collects over \$30 billion annually, the second largest revenue generator for the U.S. Government. To avoid the full payment of lawfully owed duties and fees to the U.S. Government, importers are prone to use a variety of circumvention schemes. The “Percent of revenue directed by trade laws, regulations, and agreements successfully collected” shows how effective CBP was in the past year in collecting the revenue that was due to the U.S.

# Performance Summary

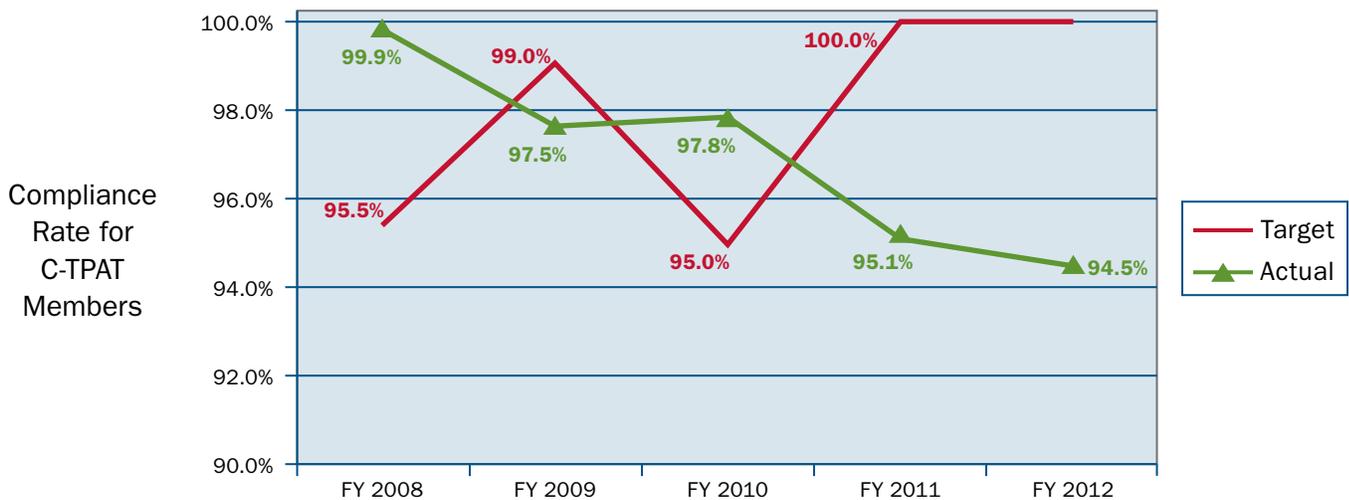
**Performance Measure**—Compliance rate for Customs-Trade Partnership Against Terrorism (C-TPAT) members with the established C-TPAT security guidelines.

**Description** This measure provides the overall compliance rate achieved for all validations performed during the Fiscal Year. After acceptance into the Customs-Trade Partnership Against Terrorism (C-TPAT) program, all C-TPAT members must undergo a periodic validation in which U.S. Customs and Border Protection (CBP) examiners visit company locations and verify compliance with an industry-specific set of CBP security standards and required security practices. These validations are prepared using a weighted scoring system that is used to develop an overall compliance rate for each company. Compliance with security guidelines enhances the security of cargo shipped to the U.S.

## KEY HIGHLIGHTS

Fiscal Year	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Target	95.50%	99.00%	95.00%	100.00%	100.00%
Actual	99.90%	97.50%	97.80%	95.10%	94.50%
<b>Explanation of FY 2012 Results</b>	<b>Target Not Met</b> —The overall compliance rate decreased after a number of companies were suspended or removed due to the implementation of strengthened C-TPAT security criteria, including new suspension and removal guidelines and increased management oversight.				
<b>Recommended Action</b>	C-TPAT is working with partner companies to explain the enhanced security criteria and ensure they understand the validation requirements.				

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



# Performance Summary

**Performance Measure**—Percent of revenue directed by trade laws, regulations, and agreements successfully collected.

**Description** This measure estimates the collected duties expressed as a percent of the all collectable revenue due from commercial imports to the United States directed by trade laws, regulations, and agreements. The total collectable revenue is defined as total collection plus the estimated net under collection (also called revenue gap or loss) due to non-compliance with U.S. trade laws and regulations. The revenue gap is a calculation of uncollected duties based on statistical sampling, expressed as both a dollar estimate and a percent of under collections.

## KEY HIGHLIGHTS

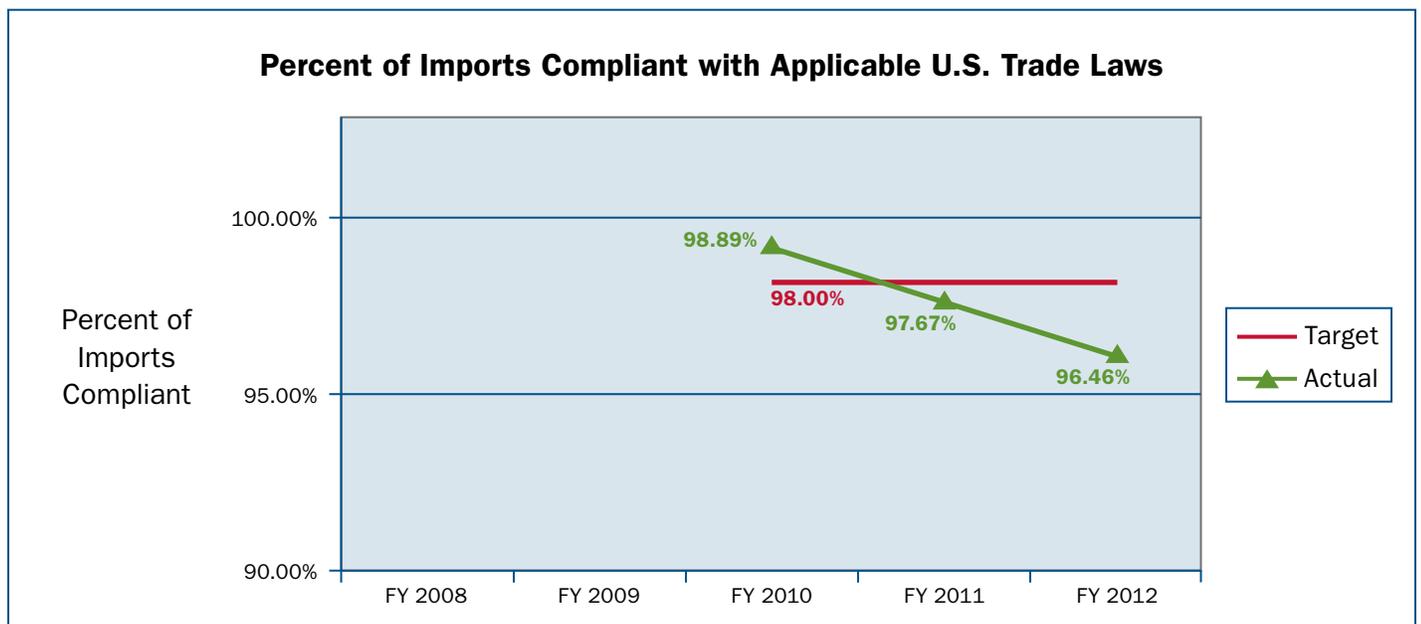
Fiscal Year	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Target	N/A	N/A	N/A	100.00%	100.00%
Actual	N/A	N/A	N/A	99.12%	98.88%
Explanation of FY 2012 Results	<b>Target Not Met</b> —During the random sample review process, CBP found classification errors that resulted in a reduction of revenue collected.				
Recommended Action	CBP will target importers to ensure shipments are classified correctly.				

**Percent of Revenue Directed by Trade Laws, Regulations, and Agreements Successfully Collected**



# Performance Summary

<b>Performance Measure</b> —Percent of imports compliant with applicable U.S. trade laws.					
<b>Description</b>	This measure reports the percent of imports that are compliant with U.S. trade laws including customs revenue laws.				
<b>KEY HIGHLIGHTS</b>					
<b>Fiscal Year</b>	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
<b>Target</b>	N/A	N/A	98.00%	98.00%	98.00%
<b>Actual</b>	N/A	N/A	98.89%	97.67%	96.46%
<b>Explanation of FY 2012 Results</b>	<b>Target Not Met</b> —During the random sample review process, CBP found classification errors by importers that resulted in a reduced compliance rate.				
<b>Recommended Action</b>	CBP will target importers to ensure shipments are classified correctly.				



<b>Performance Measure</b> —Percent of requested cargo examinations conducted at foreign ports of origin in cooperation with host nations under the Container Security Initiative.	
<b>Explanation of FY 2012 Results</b>	<b>Target Not Met</b> —See page 71 for results and detailed discussion.

# Performance Summary

<i>Performance Measure</i> —Percent of cargo by value imported to the U.S. by participants in CBP trade partnership programs.	
Explanation of FY 2012 Results	<b>Target Met</b> —See page 72 for results and detailed discussion.

<i>Performance Measure</i> —Percent of inbound high-risk cargo transported by air, land, or sea that has been screened and entry status is resolved prior to or during processing at a United States port of entry.	
Explanation of FY 2012 Results	<b>Target Not Met</b> —See page 73 for results and detailed discussion.

## **Mission Set 3: Sustaining Investment in People and Capabilities**

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

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



# Financial Section

This section presents CBP's audited comparative financial statements, related note disclosures, and Independent Auditors' Report.

# Message from the Chief Financial Officer



U.S. Customs and Border Protection (CBP) has been working diligently to provide citizens with timely, reliable, and useful financial management information that facilitates intelligent decision-making and effective stewardship of the resources entrusted to our organization. The Office of Administration stands with other offices in CBP to help accomplish the agency's mission by providing the resources and facilities necessary to ensure mission success.

The purpose of this report is to provide a comprehensive assessment of our Agency's financial performance, and to provide an accounting for our stewardship of resources entrusted to CBP to support our mission of securing the borders of the United States. These stewardship-related responsibilities continue to evolve in response to the changing fiscal environment and new strategic priorities, as well as the ever-present drive to improve our processes. To address

these changes and more closely link budgeting with performance, CBP has begun transitioning to the Planning, Programming, Budgeting, and Accountability (PPBA) process, and has re-conceptualized its mission programs in terms of Lines of Business.

CBP has continued our efforts to achieve a balanced workforce, realize cost savings, and close critical workforce gaps. These programs promote efficiencies and savings across CBP that save taxpayer dollars and allow maximal use of CBP's funds in support of our mission.

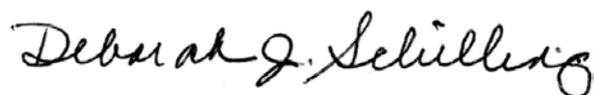
I can provide reasonable assurance that the objectives of Section 2 (Management Controls) and Section 4 (Financial Management Systems) of the Federal Managers' Financial Integrity Act have been achieved. CBP still has room for improvement. We are correcting issues identified by internal management evaluations in support of CBP's Management Assurance, as well as auditor-identified weakness in internal controls. CBP is committed to addressing all of our financial management challenges by continuing to implement corrective measures that improve our oversight and accountability.

CBP continues to correct issues identified by the Financial Statement Audit as well as other weaknesses identified through Governments Accountability Office (GAO), Department of Homeland Security Office of Inspector General (OIG) or internal management evaluations. CBP's most challenging control deficiencies relate to issues involving custodial revenue and drawback. These issues cannot be resolved without legislative changes and/or system enhancements. However, CBP continues to develop and implement compensating controls in the areas where these limitations exist.

# Message from the Chief Financial Officer

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None of this could be accomplished without the diligent work of employees across CBP whose attention to detail and devotion to duty allow us to maintain our high standards of financial stewardship. Our goal remains to provide timely, reliable, and useful financial management information to Congress and the American public, and to enable the managers across CBP to make informed business decisions.



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

# Financial Statements

## Introduction

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

- The **Consolidated Balance Sheets** present the property owned by CBP (assets), amounts owed by CBP (liabilities), and the amounts of the difference (net position).
- The **Consolidated Statements of Net Cost** present the net cost of the major CBP programs as they relate to the goals of the 2009–2014 Strategic Plan.
- The **Consolidated Statements of Changes in Net Position** represent those accounting transactions that caused the net position of the balance sheet to change from the beginning to the end of the reporting period. CBP’s net cost of operations serves to reduce the net position.
- The **Combined Statements of Budgetary Resources** illustrate how and in what amounts budgetary resources were made available, as well as their status at the end of FY 2012.
- The **Consolidated Statements of Custodial Activity** present non-entity (financial activity conducted by CBP on behalf of others) revenue and refunds using a modified cash basis.

# Financial Statements

## U.S. Customs and Border Protection Consolidated Balance Sheets As of September 30, 2012 and 2011 (in Thousands)

	2012	2011
<b>ASSETS (Note 2)</b>		
<b>Intra-governmental:</b>		
Fund Balance with Treasury (Note 3)	\$ 6,248,505	\$ 6,991,419
Accounts Receivable	17,788	14,519
Advances and Prepayments (Note 11)	175,601	155,073
<b>Total Intra-governmental</b>	<b>\$ 6,441,894</b>	<b>\$ 7,161,011</b>
Cash and Other Monetary Assets (Note 4)	3,632	4,172
Accounts Receivable, Net (Note 5)	202,180	142,977
Taxes, Duties and Trade Receivables, Net (Note 6)	2,700,465	2,731,765
Inventory and Related Property, Net (Note 7)	190,712	171,785
General Property, Plant and Equipment, Net (Note 9)	6,337,045	6,022,928
Other Assets (Note 11)	233	79
<b>TOTAL ASSETS</b>	<b>\$ 15,876,161</b>	<b>\$ 16,234,717</b>
Stewardship PP&E (Note 10)		
<b>LIABILITIES (Note 12)</b>		
<b>Intra-governmental:</b>		
Accounts Payable	\$ 238,091	\$ 299,955
Other		
Due to the Treasury General Fund	2,783,682	2,817,065
Accrued FECA Liability (Note 12)	153,378	147,352
Other Employment Liabilities (Note 12)	674	2,076
Employee Benefits and Taxes	119,128	110,827
Advances From Others	2,024	8,531
<b>Total Intra-governmental</b>	<b>\$ 3,296,977</b>	<b>\$ 3,385,806</b>
Accounts Payable	241,941	388,033
Environmental & Disposal Liabilities (Notes 12 and 14)	17,610	16,472
Other		
Accrued Payroll and Benefits (Note 13)	1,638,595	1,572,106
Refunds Payable (Note 15)	176,910	131,413
Injured Domestic Industries (Note 15)	140,374	431,545
Liabilities for Deposit Accounts & Antidumping/Countervailing Duties	203,369	155,667
Legal Contingent Liabilities (Note 17)	374,452	386,266
<b>TOTAL LIABILITIES</b>	<b>\$ 6,090,228</b>	<b>\$ 6,467,308</b>
Commitments and Contingencies (Note 17)		
<b>NET POSITION:</b>		
Unexpended Appropriations	3,809,738	4,253,612
Cumulative Results of Operations – Earmarked Funds (Note 18)	434,672	1,000,085
Cumulative Results of Operations – Other Funds	5,541,523	4,513,712
<b>TOTAL NET POSITION</b>	<b>\$ 9,785,933</b>	<b>\$ 9,767,409</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 15,876,161</b>	<b>\$ 16,234,717</b>

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

# Financial Statements

**U.S. Customs and Border Protection  
Consolidated Statements of Net Cost  
For the Years Ended September 30, 2012 and 2011  
(in Thousands)**

	2012	2011
<b>Office of Field Operations Border Security Inspections and Trade Facilitation at Ports of Entry</b>		
Gross Cost	\$ 6,609,914	\$ 6,519,881
Less: Earned Revenue	161,474	155,789
<b>Net Program Costs</b>	<b>\$ 6,448,440</b>	<b>\$ 6,364,092</b>
<b>Border Security and Control Between Ports of Entry</b>		
Gross Cost	4,634,941	4,887,323
Less: Earned Revenue	110,197	116,780
<b>Net Program Costs</b>	<b>\$ 4,524,744</b>	<b>\$ 4,770,543</b>
<b>Border Security Fencing, Infrastructure and Technology</b>		
Gross Cost	362,052	91,204
Less: Earned Revenue	167	2,179
<b>Net Program Costs</b>	<b>\$ 361,885</b>	<b>\$ 89,025</b>
<b>Automation Modernization</b>		
Gross Cost	315,615	218,644
Less: Earned Revenue	(1)	5,224
<b>Net Program Costs</b>	<b>\$ 315,616</b>	<b>\$ 213,420</b>
<b>Air and Marine Operations</b>		
Gross Cost	700,205	607,865
Less: Earned Revenue	6,296	14,524
<b>Net Program Costs</b>	<b>\$ 693,909</b>	<b>\$ 593,341</b>
<b>Total Gross Cost</b>	12,622,727	12,324,917
<b>Less: Total Earned Revenue</b>	278,133	294,496
<b>Net Cost of Operations (Notes 19 and 20)</b>	<b>\$ 12,344,594</b>	<b>\$ 12,030,421</b>

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

# Financial Statements

**U.S. Customs and Border Protection**  
**Consolidated Statement of Changes In Net Position**  
**For the Year Ended September 30, 2012**  
**(in Thousands)**

	FY 2012		Consolidated Total
	Earmarked Funds	All Other Funds	
<b>Cumulative Results of Operations:</b>			
Beginning Balances	\$ 1,000,085	\$ 4,513,712	\$ 5,513,797
Adjustment:			
Change in Accounting Principle (Note 22)	(639,940)	639,940	--
Beginning Balances, as adjusted	360,145	5,153,652	5,513,797
<b>Budgetary Financing Sources:</b>			
Appropriations Used	--	8,390,572	8,390,572
Non-exchange Revenue (Note 21)	573,856	8,340	582,196
Transfers In/Out Without Reimbursement (Note 21)	(2,218,859)	2,459,986	241,127
<b>Other Financing Sources (Non-exchange):</b>			
Transfers In/Out Without Reimbursement	--	60,926	60,926
Imputed Financing	--	645,076	645,076
Other (Note 21)	2,851,583	35,512	2,887,095
Total Financing Sources	\$ 1,206,580	\$ 11,600,412	\$ 12,806,992
Net Cost of Operations	(1,132,053)	(11,212,541)	(12,344,594)
Net Change	\$ 74,527	\$ 387,871	\$ 462,398
<b>Cumulative Results of Operations</b>	<b>\$ 434,672</b>	<b>\$ 5,541,523</b>	<b>\$ 5,976,195</b>
<b>Unexpended Appropriations:</b>			
Beginning Balance	\$ --	\$ 4,253,612	\$ 4,253,612
<b>Budgetary Financing Sources:</b>			
Appropriations Received (Note 24)	--	8,051,909	8,051,909
Appropriations Transferred In/Out	--	5,770	5,770
Other Adjustments	--	(110,981)	(110,981)
Appropriations Used	--	(8,390,572)	(8,390,572)
Total Budgetary Financing Sources	\$ --	\$ (443,874)	\$ (443,874)
<b>Total Unexpended Appropriations</b>	<b>\$ --</b>	<b>\$ 3,809,738</b>	<b>\$ 3,809,738</b>
<b>Net Position</b>	<b>\$ 434,672</b>	<b>\$ 9,351,261</b>	<b>\$ 9,785,933</b>

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

# Financial Statements

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

	FY 2011		Consolidated Total
	Earmarked Funds	All Other Funds	
<b>Cumulative Results of Operations:</b>			
Beginning Balances	\$ 890,204	\$ 4,236,068	\$ 5,126,272
<b>Budgetary Financing Sources:</b>			
Appropriations Used	--	8,825,940	8,825,940
Non-exchange Revenue (Note 21)	497,951	7,730	505,681
Transfers In/Out Without Reimbursement (Note 21)	(1,666,692)	1,864,347	197,655
<b>Other Financing Sources (Non-exchange):</b>			
Transfers In/Out Without Reimbursement	--	40,556	40,556
Imputed Financing	--	710,128	710,128
Other (Note 21)	2,208,076	(70,090)	2,137,986
Total Financing Sources	<u>\$ 1,039,335</u>	<u>\$ 11,378,611</u>	<u>\$ 12,417,946</u>
Net Cost of Operations	(929,454)	(11,100,967)	(12,030,421)
Net Change	<u>\$ 109,881</u>	<u>\$ 277,644</u>	<u>\$ 387,525</u>
<b>Cumulative Results of Operations</b>	<u>\$ 1,000,085</u>	<u>\$ 4,513,712</u>	<u>\$ 5,513,797</u>
<b>Unexpended Appropriations:</b>			
Beginning Balance	\$ --	\$ 5,104,867	\$ 5,104,867
<b>Budgetary Financing Sources:</b>			
Appropriations Received (Note 24)	--	8,341,154	8,341,154
Appropriations Transferred In/Out	--	6,196	6,196
Other Adjustments	--	(372,665)	(372,665)
Appropriations Used	--	(8,825,940)	(8,825,940)
Total Budgetary Financing Sources	<u>\$ --</u>	<u>\$ (851,255)</u>	<u>\$ (851,255)</u>
<b>Total Unexpended Appropriations</b>	<u>\$ --</u>	<u>\$ 4,253,612</u>	<u>\$ 4,253,612</u>
<b>Net Position</b>	<u>\$ 1,000,085</u>	<u>\$ 8,767,324</u>	<u>\$ 9,767,409</u>

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

# Financial Statements

**U.S. Customs and Border Protection  
Combined Statements of Budgetary Resources  
For the Years Ended September 30, 2012 and 2011  
(in Thousands)**

	<u>2012</u>	<u>2011</u>
<b>Budgetary Resources:</b>		
Unobligated balance, brought forward, October 1	\$ 2,268,372	\$ 2,646,476
Adjustment to unobligated balance brought forward, October 1 (Note 22)	(639,940)	--
Unobligated balance brought forward, October 1, as adjusted	\$ 1,628,432	\$ 2,646,476
Recoveries of prior year unpaid obligations	351,236	607,416
Other changes in unobligated balance	(93,385)	(78,518)
Unobligated balance from prior year budget authority, net	\$ 1,886,283	\$ 3,175,374
Appropriations (Note 24)	13,719,063	12,362,539
Spending authority from offsetting collections	1,618,346	1,458,775
<b>Total Budgetary Resources</b>	<u>\$ 17,223,692</u>	<u>\$ 16,996,688</u>
<b>Status of Budgetary Resources:</b>		
Obligations incurred (Note 23)	\$ 15,912,828	\$ 14,728,316
Unobligated balance, end of year:		
Apportioned	638,510	627,800
Unapportioned	672,354	1,640,572
Total unobligated balance, end of year	<u>\$ 1,310,864</u>	<u>\$ 2,268,372</u>
<b>Total Status of Budgetary Resources</b>	<u>\$ 17,223,692</u>	<u>\$ 16,996,688</u>
<b>Change in Obligated Balance:</b>		
Unpaid obligations, brought forward, October 1 (gross)	\$ 4,713,167	\$ 5,061,440
Uncollected customer payments from Federal sources, brought forward, October 1	(163,896)	(172,288)
Obligated balance, start of year (net), before adjustments	<u>\$ 4,549,271</u>	<u>\$ 4,889,152</u>
Obligated balance, start of year (net), as adjusted	\$ 4,549,271	\$ 4,889,152
Obligations incurred (Note 23)	15,912,828	14,728,316
Outlays (gross)	(16,117,279)	(14,469,173)
Change in uncollected customer payments from Federal sources	1,276	8,392
Recoveries of prior year unpaid obligations	(351,236)	(607,416)
Obligated balance, end of year		
Unpaid obligations, end of year (gross)	4,157,480	4,713,167
Uncollected customer payments from Federal sources, end of year	(162,620)	(163,896)
Obligated balance, end of year (net)	<u>\$ 3,994,860</u>	<u>\$ 4,549,271</u>
<b>Budget Authority and Outlays, Net:</b>		
Budget authority, gross	\$ 15,337,409	\$ 13,821,314
Actual offsetting collections	(1,619,622)	(1,467,167)
Change in uncollected customer payments from Federal sources	1,276	8,392
Budget authority, net	<u>\$ 13,719,063</u>	<u>\$ 12,362,539</u>
Outlays, gross	\$ 16,117,279	\$ 14,469,173
Actual offsetting collections	(1,619,622)	(1,467,167)
Outlays, net	\$ 14,497,657	\$ 13,002,006
Distributed offsetting receipts	(3,499,993)	(2,764,695)
Agency outlays, net	<u>\$ 10,997,664</u>	<u>\$ 10,237,311</u>

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

# Financial Statements

**U.S. Customs and Border Protection**  
**Consolidated Statements of Custodial Activity**  
**For the Years Ended September 30, 2012 and 2011**  
(in Thousands)

	<b>2012</b>	<b>2011</b>
<b>Revenue Activity (Note 28):</b>		
<b>Sources of Cash Collections:</b>		
Duties	\$ 30,532,909	\$ 29,253,905
User Fees	1,583,511	1,513,925
Excise Taxes	3,104,632	2,893,631
Fines and Penalties	61,597	62,163
Interest	58,422	48,540
Miscellaneous	137,582	114,375
<b>Total Cash Collections</b>	<b>\$ 35,478,653</b>	<b>\$ 33,886,539</b>
Accrual Adjustments (+/-)	149,686	351,197
<b>Total Custodial Revenue</b>	<b>\$ 35,628,339</b>	<b>\$ 34,237,736</b>
<b>Disposition of Collections:</b>		
<b>Transferred to Others:</b>		
Treasury General Fund Accounts	\$ 22,114,679	\$ 20,960,680
U.S. Department of Agriculture	9,344,681	9,869,544
U.S. Army Corps of Engineers	1,539,799	1,469,109
Other Federal Agencies	87,683	66,635
Government of Puerto Rico	14,615	7,369
Government of the U.S. Virgin Islands	--	1,946
Non-Federal Other	119,976	111,370
(Increase)/Decrease in Amounts Yet to be Transferred	156,437	403,455
Refunds and Drawbacks (Note 28)	2,250,469	1,347,628
<b>Total Disposition of Collections</b>	<b>\$ 35,628,339</b>	<b>\$ 34,237,736</b>
<b>Net Custodial Activity</b>	<b>\$ --</b>	<b>\$ --</b>

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

# Notes to Financial Statements

## 1. Significant Accounting Policies

### Reporting Entity

U.S. Customs and Border Protection (CBP) was created on March 1, 2003, and is a component of the U.S. Department of Homeland Security (DHS). CBP is the unified border agency whose priority mission is the prevention of terrorists and terrorists' weapons from entering the 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.

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

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

### Basis of Accounting and Presentation

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

# Notes to Financial Statements

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

The statements consist of the Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and Consolidated Statement of Custodial Activity. All statements are prepared in accordance with Office of Management and Budget (OMB) Circular A-136. In FY 2012, changes to the presentation of the Combined Statements of Budgetary Resources were made, in accordance with guidance provided in OMB Circular A-136 and as such, activity and balances reported on the FY 2011 Combined Statements of Budgetary Resources have been reclassified to conform to the presentation in the current year.

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

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

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

## **Earmarked Funds**

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

# Notes to Financial Statements

CBP has program management responsibility for the following earmarked funds:

<b>Appropriation</b>	<b>Title</b>
70X5087	CBP - Immigration User Fees
70X5089	Land Border Inspection Fees
70X5451	Enforcement Fines Account
70X5543	International Registered Traveler
70X5595	Electronic Systems for Travel Authorization Fees
70X5694	Small Airport User Fees
70X5695	Customs User Fees Account
70X8870	Harbor Maintenance Fee Collections

## **Assets and Liabilities**

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

## **Fund Balance with Treasury, Cash and Other Monetary Assets**

Entity Fund Balance with Treasury are the amounts remaining as of September 30, 2012 and 2011 from which CBP is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law. Non-entity Fund Balance with Treasury represents funds available to pay refunds and drawback claims of duties, taxes, fees, and other non-entity amounts to be distributed to the Treasury General Fund and other Federal accounts in a future period.

## **Advances and Prepayments**

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

## **Accounts Receivable**

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

# 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 on or before the date that is 60 days after the applicable month.

## **Due to the Treasury General Fund**

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

## **Taxes, Duties, and Trade Receivables**

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

## **Inventory and Related Property**

Inventory and Related Property consists of aircraft parts, vessel parts, Office of Technology Innovation and Acquisition (OTIA) parts, and CBP uniforms classified as operating materials and supplies to be used in CBP's operations. Aircraft and OTIA parts and materials are recorded at average unit cost, and vessel parts and uniforms are recorded using the First-In-First-Out valuation method. Both methods approximate actual acquisition costs. When ultimately used in CBP operations, an operating expense is recorded.

# Notes to Financial Statements

## **Seized and Forfeited Property**

Prohibited seized and forfeited property results primarily from CBP criminal investigations and passenger/cargo processing. Seized property is not considered an asset of CBP and is not reported as such in CBP's financial statements; however, CBP has a stewardship responsibility until disposition of the seized items are determined. Non-prohibited seized property, including monetary instruments, real property and tangible personal property of others in the actual or constructive possession of CBP will be transferred to the Treasury Forfeiture Fund and is not presented in the accompanying CBP Consolidated Balance Sheet or Note 8, Seized and Forfeited Property.

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

## **General Property, Plant, and Equipment**

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

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

Depreciation and amortization are computed using the straight line method over the estimated useful lives of the assets ranging from 4 to 30 years for equipment and software, 2 to 30 years for leasehold improvements, and 5 to 40 years for buildings, structures and land improvements. Amortization of capitalized software begins on the date of acquisition if purchased or when the module or component has been successfully tested if contractor or internally developed.

## **Accounts Payable**

A portion of the accounts payable balance related to commercial/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.

## **Accrued Annual, Sick, and Other Leave and Compensatory Time**

Annual leave, compensatory time and other leave time are accrued when earned. The accrual is presented as a component of the payroll and benefits liability in the Consolidated Balance Sheet and is adjusted for changes in

# Notes to Financial Statements

compensation rates and reduced for annual leave taken. Sick leave is expensed when used. For additional information see Note 13, Accrued Payroll and Benefits.

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

Most CBP employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS). CBP contributes 7 percent of base pay for regular employees, and 7.5 percent for law enforcement agents. Employees hired after December 31, 1983 are automatically covered by the Federal Employees' Retirement System (FERS) and Social Security. A primary feature of FERS is that it offers a savings plan to which CBP automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, CBP also contributes the employees' matching share for Social Security. For the FERS basic benefit, CBP contributes 11.9 percent of base pay for regular employees and 26.3 percent for law enforcement agents. The pay base for determining CBP contributions to CSRS and FERS for inspectors and canine officers include regular pay and up to a maximum of \$17.5 thousand in certain overtime earnings for FY 2012 and 2011. CBP recognizes the full costs of its employees' pension benefits; however, the liability associated with these costs is recognized by the Office of Personnel Management (OPM).

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

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

## **Workers' Compensation**

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The FECA program is administered by the U.S. Department of Labor (DOL), which initially pays valid claims and subsequently seeks reimbursement from Federal agencies employing the claimants. Reimbursement to DOL on payments made usually occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intra-governmental liability are made available to CBP as part of its annual appropriation from Congress in the year in which the reimbursement takes place. The liability under which unemployment compensation is recorded is entitled Other Employment Liabilities; the liability under which unfunded FECA is recorded is entitled Accrued FECA Liability and actuarial FECA is recorded in Accrued Payroll and Benefits in the accompanying Consolidated Balance Sheet.

Additionally, the actuarial liability due to the public includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related

# Notes to Financial Statements

to that period. Based on information provided by DOL, DHS allocates the actuarial liability to its components and department offices based on the payment history for the components and department offices. The accrued liability is not covered by budgetary resources and will require future funding. For additional information see Note 13, Accrued Payroll and Benefits.

## Unexpended Appropriations

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

## Cumulative Results of Operations

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

## Revenue, Financing Sources, and Expense Recognition

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

The FY 2012 and 2011 activities reported on the Consolidated Statement of Net Cost contain all resource costs assigned from CBP cost centers. An activity-based costing system derives an estimate of the agency's cost by activity performed. The key driver behind CBP's allocation of cost to activity is labor hours. Each pay period, all CBP personnel log their time to one or more of several hundred distinct activities. Time recorded by operational cost

# Notes to Financial Statements

center is also used to assign mission support and overhead costs to field operational cost center activities. The time and attendance system used to record personnel labor hours is COSS (Customs Overtime Scheduling System).

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

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

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

A transfer to the Treasury General Fund is recognized when the non-entity revenue, collected on behalf of the Federal Government, is deposited into various receipt Treasury 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 Non-entity Accounts Receivable, net of uncollectible amounts and refunds payable.

## Use of Estimates

Management has made certain estimates and assumptions in the reporting of assets, liabilities and note disclosures in the Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net

# Notes to Financial Statements

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

## **Taxes**

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

## **Reclassification**

In FY 2012, CBP made certain reclassifications to FY 2011 balances to conform to FY 2012 presentation.

# Notes to Financial Statements

## 2. Non-entity Assets

Non-entity assets as of September 30, 2012 and 2011, consist of the following (in thousands):

	<u>2012</u>	<u>2011</u>
<b>Intra-governmental:</b>		
Fund Balance with Treasury (Note 3)	\$ 593,749	\$ 803,540
<b>Public</b>		
Cash and Other Monetary Assets (Note 4)	3,272	3,844
Accounts Receivable, Net	493	476
Taxes, Duties and Trade Receivables, Net (Note 6)	<u>2,700,465</u>	<u>2,731,765</u>
<b>Total Public</b>	<u>\$ 2,704,230</u>	<u>\$ 2,736,085</u>
<b>Total Non-entity Assets</b>	<u>3,297,979</u>	<u>3,539,625</u>
<b>Total Entity Assets</b>	<u>12,578,182</u>	<u>12,695,092</u>
<b>Total Assets</b>	<u>\$ 15,876,161</u>	<u>\$ 16,234,717</u>

Non-entity Fund Balance with Treasury as of September 30, 2012 and 2011 includes approximately \$191.5 million and \$152.9 million (deposit funds) in duties collected by CBP for U.S. Virgin Islands, U.S. Department of Agriculture and antidumping/countervailing duties and \$220.0 million and \$512.6 million (special funds) for Injured Domestic Industries as of September 30, 2012 and 2011, respectively. These assets are directly offset with liabilities as of September 30, 2012 and 2011.

Non-entity Fund Balance with Treasury consists of special and deposit funds, permanent appropriations, and miscellaneous receipts that are available to pay non-entity liabilities. Taxes, Duties and Trade receivables from the public represent amounts due from importers for goods and merchandise imported to the United States and, upon collection, will be available to pay the accrued intra-governmental liability Due to the Treasury General Fund, which equaled \$2.8 billion as of September 30, 2012 and 2011.

# Notes to Financial Statements

## 3. Fund Balance with Treasury

Fund Balance with Treasury as of September 30, 2012 and 2011 consists of the following (in thousands):

<u>2012</u>	<u>Entity</u>	<u>Non-entity</u>	<u>Total</u>
Trust Funds	\$ 236	\$ --	\$ 236
Special Funds	295,915	220,029	515,944
General Funds	4,625,073	182,263	4,807,336
Other Funds	722,940	--	722,940
Deposit Funds	10,592	191,457	202,049
<b>Total</b>	<b>\$ 5,654,756</b>	<b>\$ 593,749</b>	<b>\$ 6,248,505</b>

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

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

Special funds are receipt funds used for specific purposes. Entity amounts comprising the special fund balances result from CBP authority to assess and collect passenger and conveyance-related user fees, CBP authority to assess and collect fees associated with services performed at certain small airports or other facilities, and CBP authority to retain amounts needed to offset costs associated with collecting duties, taxes, and fees for the Government of Puerto Rico. As of September 30, 2012 and 2011, CBP User Fees account includes approximately \$67.3 million and \$714.3 million, respectively; CBP Services at Small Airports account contained approximately \$17.6 million and \$15.9 million, respectively; Refunds, Transfers and Expenses of Operation of Puerto Rico account contained approximately \$37.7 million and \$51.9 million, respectively; and Immigration User Fees of \$84.5 million and \$95.0 million, respectively. Non-entity fund balance represents amounts collected in connection with antidumping and countervailing duties of \$220.0 million and \$512.6 million as of September 30, 2012 and 2011, respectively. Of which \$140.4 million and \$431.5 million are eligible for payment to qualifying Injured Domestic Industries as of September 30, 2012 and 2011, respectively. The remaining amount is Due to the Treasury General Fund.

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

# Notes to Financial Statements

The entity deposit fund balance represents amounts received as an advance that are not accompanied by an order. Once the order is received, the deposit fund balance is decreased.

Status of Fund Balance with Treasury as of September 30, 2012 and 2011 consists of the following (in thousands):

2012	Entity	Non-entity	Total
Unobligated Balance			
Available	\$ 638,350	\$ --	\$ 638,350
Unavailable	452,325	220,029	672,354
Obligated Balance not yet Disbursed	3,812,597	182,263	3,994,860
Non-budgetary FBWT	751,484	191,457	942,941
<b>Total</b>	<b>\$ 5,654,756</b>	<b>\$ 593,749</b>	<b>\$ 6,248,505</b>
2011	Entity	Non-entity	Total
Unobligated Balance			
Available	\$ 627,610	\$ --	\$ 627,610
Unavailable	1,127,927	512,645	1,640,572
Obligated Balance not yet Disbursed	4,411,278	137,993	4,549,271
Non-budgetary FBWT	21,064	152,902	173,966
<b>Total</b>	<b>\$ 6,187,879</b>	<b>\$ 803,540</b>	<b>\$ 6,991,419</b>

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 but for which payment has not yet been made.

The Non-budgetary Fund Balance with Treasury includes \$639.9 million in user fees that are restricted by law for use until made available as provided in Appropriation Acts. See additional information in the Adjustment to Unobligated Balance, Brought Forward, October 1 Note (Note 22).

CBP returned to Treasury \$213.4 million and \$79.7 million for indefinite no-year authority and retained \$182.3 million and \$138.1 million in authority for obligations pursuant to public law during both the years ending September 30, 2012 and 2011, 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, 2012, CBP canceled \$94.0 million from FY 2007 annual appropriations. As of September 30, 2011, CBP canceled \$80.7 million from FY 2006 annual appropriations.

# Notes to Financial Statements

## 4. Cash and Other Monetary Assets

Cash and Other Monetary Assets as of September 30, 2012 and 2011, consist of the following (in thousands):

<b>2012</b>	<b>Entity</b>	<b>Non-entity</b>	<b>Total</b>
Imprest Funds	\$ 160	\$ --	\$ 160
Undeposited Collections	200	3,272	3,472
<b>Total</b>	<b>\$ 360</b>	<b>\$ 3,272</b>	<b>\$ 3,632</b>

<b>2011</b>	<b>Entity</b>	<b>Non-entity</b>	<b>Total</b>
Imprest Funds	\$ 190	\$ --	\$ 190
Undeposited Collections	138	3,844	3,982
<b>Total</b>	<b>\$ 328</b>	<b>\$ 3,844</b>	<b>\$ 4,172</b>

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, 2012 and 2011 are as follows (in thousands):

<b>Receivable Category</b>	<b>2012</b>		
	<b>Gross Receivable</b>	<b>Amounts Uncollectible</b>	<b>Total Net Receivables</b>
Reimbursable Services	\$ 4,204	\$ --	\$ 4,204
Customs User Fees	139,032	(3,751)	135,281
Immigration User Fees	78,429	(15,734)	62,695
<b>Total</b>	<b>\$ 221,665</b>	<b>\$ (19,485)</b>	<b>\$ 202,180</b>

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

# Notes to Financial Statements

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

Receivables as of September 30, 2012 and 2011 are as follows (in thousands):

Receivable Category	2012		
	Gross Receivable	Amounts Uncollectible	Total Net Receivables
Duties	\$ 2,284,738	\$ (131,347)	\$ 2,153,391
Excise Taxes	142,685	(8,021)	134,664
User Fees	197,613	(9,025)	188,588
Fines/Penalties	445,238	(394,396)	50,842
Interest	541,130	(478,438)	62,692
Antidumping/Countervailing Duties	1,169,953	(1,060,247)	109,706
Refunds and Drawback	1,461	(879)	582
<b>Total</b>	<b>\$ 4,782,818</b>	<b>\$ (2,082,353)</b>	<b>\$ 2,700,465</b>

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

CBP assesses duties, taxes and fees on goods and merchandise brought into the United States from foreign countries. At the time importers bring merchandise into the United States, they are required to file CBP entry documents. Generally, within 10 working days after CBP releases the merchandise into the U.S. commerce, the importer is to submit an entry document with payment of estimated duties, taxes and fees. CBP allows periodic monthly payment that requires payment of estimated duties, taxes and fees on the 15th work day of the month following release. A receivable of \$2.4 billion was recorded for 1,061,495 entries and 1,004,970 entries for merchandise released into commerce on or before September 30, 2012 and 2011, respectively. It is CBP's policy to track and demand payment of unpaid estimated duties, taxes and fees receivable amounts by establishing a liquidated damage case which generally results in a fine and penalty type receivable.

A fine or penalty is established when a violation of import/export law is discovered. CBP assesses a liquidated damage or penalty for these cases to the maximum extent of the law. After receiving the notice of assessment, the importer or surety has 60 days to either file a petition requesting a review of the assessment or make payment of the assessed amount. Until this process has been completed, CBP records an allowance on fines and penalties of approximately 88.8 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 is an offsetting liability due to the Treasury General Fund.

# Notes to Financial Statements

## 7. Inventory and Related Property, Net

### Operating Materials and Supplies

Operating Materials and Supplies consist of parts and materials to repair and maintain CBP aircraft, vessels, and OTIA projects used for enforcement activities. In addition, CBP purchased a stock of uniforms in FY 2012 to be issued for the CBP academies and as needed by officers and agents. OTIA operating materials and supplies as of September 30, 2012 and 2011 includes \$25.1 million and \$30.2 million for steel used to repair Border Patrol tactical infrastructure and \$26.4 million and \$21.2 million in spare parts used to repair systems maintained by OTIA. CBP defines operating materials and supplies categorized as “Held for Repair” as items that are usable by CBP after repair. CBP defines operating materials and supplies categorized as “Excess, Obsolete, and Unserviceable” to consist of items that are no longer usable by CBP.

Operating Materials and Supplies as of September 30, 2012 and 2011 consist of the following (in thousands):

	<u>2012</u>	<u>2011</u>
Aircraft Parts		
Items Held for Use	\$ 105,732	\$ 93,771
Items Held for Repair	15,114	18,563
Excess, Obsolete, and Unserviceable Items	5,535	2,766
Total Aircraft Parts	<u>\$ 126,381</u>	<u>\$ 115,100</u>
Vessel Parts		
Items Held for Use	\$ 6,585	\$ 4,921
Items Held for Repair	129	10
Excess, Obsolete, and Unserviceable Items	35	318
Total Vessel Parts	<u>\$ 6,749</u>	<u>\$ 5,249</u>
OTIA Parts		
Items Held for Use	\$ 40,938	\$ 44,970
Items Held for Repair	10,516	5,665
Excess, Obsolete, and Unserviceable Items	8	801
Total OTIA Parts	<u>\$ 51,462</u>	<u>\$ 51,436</u>
Uniforms		
Items Held for Use	\$ 6,120	\$ --
Total Uniforms	<u>\$ 6,120</u>	<u>\$ --</u>
<b>Total</b>	<u><u>\$ 190,712</u></u>	<u><u>\$ 171,785</u></u>

# Notes to Financial Statements

## 8. Seized and Forfeited Property

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

### Analysis of Changes in Prohibited (Non-valued) Seized Property, September 30, 2012

Category	Unit of Measurement	Balance October 1	New Seizures	Remissions	New Forfeitures	Adjustments*	Balance September 30
<b>Illegal Drugs</b>							
Cannabis (marijuana)	Kilograms	2,086	1,242,474	0	(1,244,141)	1,632	2,051
Cocaine	Kilograms	74	19,186	0	(19,206)	29	83
Heroin	Kilograms	3	1,900	0	(1,897)	(2)	4
Ecstasy	Kilograms	1	152	0	(151)	16	18
Steroids	Kilograms	165	546	0	(605)	41	147
<b>Firearms</b>	Number of Cases	2,989	1,814	(427)	(1,124)	(140)	3,112

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

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

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

# Notes to Financial Statements

## Analysis of Changes in Prohibited (Non-valued) Forfeited Property, September 30, 2012

Category	Unit of Measurement	Balance October 1	New Forfeitures	Transfers	Destroyed	Adjustments*	Balance September 30
<b>Illegal Drugs</b>							
Cannabis (marijuana)	Kilograms	120,467	1,244,141	(912)	(428,978)	(793,483)	141,235
Cocaine	Kilograms	23,931	19,206	(386)	(19,899)	1,969	24,821
Heroin	Kilograms	2,368	1,897	(2)	(1,518)	23	2,768
Ecstasy	Kilograms	1,058	151	(1)	(308)	21	921
Steroids	Kilograms	293	605	0	(558)	0	340
<b>Firearms</b>	Number of Cases	1,011	1,124	(1,196)	(5)	91	1,025

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

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

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

# Notes to Financial Statements

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

Property, Plant and Equipment as of September 30, 2012 and 2011 consist of the following (in thousands):

Categories	Useful Life (in years)	2012		
		Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Land and Land Rights	N/A	\$ 167,863	\$ --	\$ 167,863
Improvements to Land	5-40	2,056,320	(360,213)	1,696,107
Construction in Progress	N/A	1,173,411	--	1,173,411
Buildings, Other Structures and Facilities*	6-40	1,498,697	(262,844)	1,235,853
Equipment:				
ADP Equipment	5	468,506	(371,101)	97,405
Aircraft	12-20	1,329,544	(711,036)	618,508
Vessels	5-30	42,800	(18,875)	23,925
Vehicles	4-8	400,462	(311,633)	88,829
Other Equipment	5-15	1,772,657	(1,077,729)	694,928
Leasehold Improvements	2-30	381,040	(185,468)	195,572
Internal Use Software	5	1,021,115	(774,811)	246,304
Internal Use Software - In Development	N/A	98,340	--	98,340
<b>Total</b>		<b>\$ 10,410,755</b>	<b>\$ (4,073,710)</b>	<b>\$ 6,337,045</b>

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

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

# Notes to Financial Statements

## 10. Stewardship PP&E

CBP's Stewardship PP&E is comprised of heritage assets located in the United States, including the Commonwealth of Puerto Rico. CBP aggregates its personal property heritage assets as collection of documents and artifacts and reflects its multi-use heritage assets as number of physical units. Information related to heritage assets at September 30, 2012 and 2011 consists of the following:

Categories	2012				
	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	2011				
	Beginning Balance	Additions	Withdrawals	Adjustments	Total
Collection-type Assets					
Documents	1	--	--	--	1
Artifacts	1	--	--	--	1
Multi-use Heritage Assets	4	--	--	--	4
Total Stewardship PP&E	6	--	--	--	6

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

As of September 30, 2012 and 2011, CBP maintains four Customs houses, designated as multi-use heritage assets, located in Puerto Rico valued at \$534 thousand which are fully depreciated. All multi-use heritage assets are reflected on the Consolidated Balance Sheet. Deferred maintenance and repairs and condition information for heritage assets are presented in the required supplementary information.

# Notes to Financial Statements

## 11. Other Assets

### Advances and Prepayments

Intra-governmental advances and prepayments as of September 30, 2012 and 2011, totaling \$175.6 million and \$155.1 million, respectively, consist primarily of advances to UNICOR for vehicle purchases.

### Other

Other assets consists of advances and prepayments with the public from employee travel and salary advances and prepaid rent as of September 30, 2012 and 2011, totaling \$62 thousand and \$79 thousand, respectively, and capital assets no longer in service, pending disposal, as of September 30, 2012, totaling \$171 thousand.

## 12. Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources as of September 30, 2012 and 2011, consist of the following (in thousands):

	<u>2012</u>	<u>2011</u>
<b>Intra-governmental:</b>		
Accrued FECA Liability	\$ 153,378	\$ 147,352
Other Employment Liabilities	674	2,076
Due to the Treasury General Fund	2,782,953	2,816,790
Total Intra-governmental	<u>\$ 2,937,005</u>	<u>\$ 2,966,218</u>
<b>Public:</b>		
Accrued Payroll and Benefits:		
Accrued Unfunded Leave (Note 13)	\$ 395,363	\$ 415,318
Actuarial FECA Liability (Note 13)	882,292	821,599
Environmental and Disposal Liabilities (Note 14)	17,610	16,472
Legal Contingent Liabilities	374,452	386,266
<b>Total Public</b>	<u>\$ 1,669,717</u>	<u>\$ 1,639,655</u>
<b>Total Liabilities Not Covered by Budgetary Resources</b>	4,606,722	4,605,873
<b>Total Liabilities Covered by Budgetary Resources</b>	1,483,506	1,861,435
<b>Total Liabilities</b>	<u>\$ 6,090,228</u>	<u>\$ 6,467,308</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.

# Notes to Financial Statements

## 13. Accrued Payroll and Benefits

The payroll and benefits liability as of September 30, 2012 and 2011 consists of the following (in thousands):

	<b>2012</b>	<b>2011</b>
Accrued Funded Payroll and Benefits	\$ 360,940	\$ 335,189
Accrued Unfunded Leave	395,363	415,318
Actuarial FECA Liability	882,292	821,599
<b>Total</b>	<b>\$ 1,638,595</b>	<b>\$ 1,572,106</b>

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

## 14. Environmental & Disposal Liabilities

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

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

CBP's environmental cleanup liability as of September 30, 2012 and 2011 was \$17.6 million and \$16.5 million, respectively. There were no material changes in total estimated cleanup costs due to changes in law or technology. Notable changes in estimated liabilities include:

- Estimates of liability are presented in FY 2012 dollars and have been appropriately escalated to account for inflation.
- Inventory of liabilities modified due to Due Care Review process.

# Notes to Financial Statements

## 15. Other Liabilities

CBP considers \$87.3 million and \$84.8 million of the accrued FECA Liability, \$882.3 million and \$821.6 million of the actuarial FECA Liability, and \$353.0 million and \$356.8 million of the Legal Contingent Liabilities as non-current as of September 30, 2012 and 2011, respectively. CBP considers all remaining Other Liabilities as current.

### Refunds Payable

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

CBP accrues a liability for refunds and drawback claims approved at year-end, but paid subsequent to year-end. Payments made to importers/exporters are primarily identified when the import entry is liquidated, a process in which CBP makes a final determination of duties, taxes and fees owed on the entry. Due to non-liquidation of the entries, the amount to be refunded is undetermined. Therefore, a historical calculated average was used to determine a ratio for estimating the payable to be recorded. Using this average, CBP has estimated \$46.6 million and \$28.6 million as of September 30, 2012 and 2011, respectively, as a payable.

The September 30, 2012 and 2011, accrued liability consists of the following (in thousands):

	<u>2012</u>	<u>2011</u>
Refunds	\$ 131,980	\$ 105,680
Drawback Claims	44,930	25,733
<b>Total</b>	<u>\$ 176,910</u>	<u>\$ 131,413</u>

### 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, 2012 and 2011, CBP recorded a liability of \$140.4 million and \$431.5 million, respectively. CBP makes annual payments of antidumping/countervailing duties to qualifying injured domestic industries. In FY 2012, CBP disbursed \$332.0 million in CDSOA funds from FY 2006 through FY 2010 that had been previously held under pending litigation.

# Notes to Financial Statements

## 16. Leases

### Operating Leases

CBP leases various facilities and equipment under leases accounted for as operating leases. The leased items consist of offices, warehouses, vehicles and other equipment. Much of the office space occupied by CBP is either owned by the Federal Government or is leased by the General Services Administration (GSA) from commercial sources. CBP is not committed to continue to pay rent to GSA beyond the period occupied providing proper advance notice to GSA unless the rental agreement is non-cancelable.

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, 2012 (in thousands):

<b>Fiscal Year</b>	<b>Facilities, Vehicles, and Equipment</b>
2013	\$ 171,711
2014	168,842
2015	165,646
2016	153,988
2017	142,829
Beyond 2017	968,024
Total Future Lease Payments	<u>\$ 1,771,040</u>

## 17. Commitments and Contingencies

### **Legal Contingent Liabilities**

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

The range of estimated contingent liabilities for all probable and estimable litigation related claims as of September 30, 2012 and 2011 were \$374.5 million to \$616.5 million and \$386.3 million to \$616.6 million, respectively. Asserted and pending legal claims for which loss is reasonably possible range from an estimated \$473.5 million to \$575.6 million and \$574.0 million to \$586.8 million as of September 30, 2012 and 2011, respectively. As of September 30, 2012, CBP had 7 cases considered reasonably possible for which no estimate could be made.

As disclosed in the Other Liabilities note, \$353.0 million and \$356.8 million of the Legal Contingent Liabilities is considered non-current as of September 30, 2012 and 2011, respectively.

### **Duty and Trade Refunds**

There are various other trade issues resolved by other Federal agencies, such as the Department of Commerce, which may result in refunds of duties, taxes and fees from the Refunds and Drawback Account. Until such time as a decision is reached by the other Federal agencies, CBP does not have sufficient information to estimate a contingent liability amount. All known refunds as of September 30, 2012 and 2011 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 \$94.4 million, as of September 30, 2012 and 2011, respectively.

# Notes to Financial Statements

## 18. Earmarked Funds

Earmarked funds are financed by specifically identified revenues and other financing sources. These funds are required by statute to be used for designated activities 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.

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

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

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

### **Immigration User Fees (IUF)**

Joint Resolution (H.J. Res. 738), making continuing appropriations for FY 1987 (the "1987 Act") (Public Laws 99-500 and 99-591), established the Immigration User Fee Account (IUFA) [requiring] the [collection] of a \$5 fee charged to each passenger arriving in the United States from foreign locations aboard commercial aircraft and commercial vessels except passengers whose journeys originated in the United States, Canada, Mexico, a territory or possession of the United States, or an adjacent island. The 1987 Act directed the 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).

# Notes to Financial Statements

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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.

In FY 2003, with the formation of the DHS, CBP collects and shares the revenue from the immigration user fees with Immigration and Customs Enforcement (ICE). CBP maintains approximately 82.6 percent of the user fee, while the other 17.4 percent is turned over to ICE.

# Notes to Financial Statements

The following tables present condensed data relating to CBP earmarked funds (disclosed in note 1) as of and for the years ended September 30, 2012 and 2011 (in thousands):

	<b>2012</b>			
	<b>COBRA</b>	<b>IUF</b>	<b>All Others</b>	<b>Total</b>
<b>Balance Sheet</b>				
Assets				
Fund Balance with Treasury	\$ 67,342	\$ 84,521	\$ 106,333	\$ 258,196
Taxes, Duties, & Trade Receivables, Net	122,869	--	1	122,870
Other Assets	135,481	62,696	442	198,619
<b>Total Assets</b>	<b>\$ 325,692</b>	<b>\$ 147,217</b>	<b>\$ 106,776</b>	<b>\$ 579,685</b>
<b>Liabilities and Net Position</b>				
Liabilities	\$ 144,323	\$ --	\$ 690	\$ 145,013
Cumulative Results of Operations	181,369	147,217	106,086	434,672
<b>Total Liabilities and Net Position</b>	<b>\$ 325,692</b>	<b>\$ 147,217</b>	<b>\$ 106,776</b>	<b>\$ 579,685</b>
<b>Statement of Net Cost</b>				
Gross Cost	\$ 472,024	\$ 577,384	\$ 84,330	\$ 1,133,738
Less: Earned Revenue	--	--	1,685	1,685
<b>Net Cost of Operations</b>	<b>\$ 472,024</b>	<b>\$ 577,384</b>	<b>\$ 82,645</b>	<b>\$ 1,132,053</b>
<b>Statement of Changes in Net Position</b>				
Net Position Beginning of Period	\$ 796,302	\$ 134,256	\$ 69,527	\$ 1,000,085
Adjustments	(639,940)	--	--	(639,940)
Net Position Beginning Balances, Adjusted	156,362	134,256	69,527	360,145
Net Costs of Operations	(472,024)	(577,384)	(82,645)	(1,132,053)
Non-exchange Revenue	463,107	--	110,749	573,856
Net Transfers In/Out	(2,099,772)	(119,087)	--	(2,218,859)
Other (Note 21)	2,133,696	709,432	8,455	2,851,583
<b>Change in Net Position</b>	<b>\$ 25,007</b>	<b>\$ 12,961</b>	<b>\$ 36,559</b>	<b>\$ 74,527</b>
<b>Net Position End of Period</b>	<b>\$ 181,369</b>	<b>\$ 147,217</b>	<b>\$ 106,086</b>	<b>\$ 434,672</b>
<b>2011</b>				
<b>Balance Sheet</b>				
Assets				
Fund Balance with Treasury	\$ 717,398	\$ 94,986	\$ 71,751	\$ 884,135
Taxes, Duties, & Trade Receivables, Net	85,885	--	401	86,286
Other Assets	97,892	39,270	573	137,735
<b>Total Assets</b>	<b>\$ 901,175</b>	<b>\$ 134,256</b>	<b>\$ 72,725</b>	<b>\$ 1,108,156</b>
<b>Liabilities and Net Position</b>				
Liabilities	\$ 104,873	\$ --	\$ 3,198	\$ 108,071
Cumulative Results of Operations	796,302	134,256	69,527	1,000,085
<b>Total Liabilities and Net Position</b>	<b>\$ 901,175</b>	<b>\$ 134,256</b>	<b>\$ 72,725</b>	<b>\$ 1,108,156</b>
<b>Statement of Net Cost</b>				
Gross Cost	\$ 407,059	\$ 468,394	\$ 56,276	\$ 931,729
Less: Earned Revenues	--	--	2,275	2,275
<b>Net Cost of Operations</b>	<b>\$ 407,059</b>	<b>\$ 468,394</b>	<b>\$ 54,001</b>	<b>\$ 929,454</b>
<b>Statement of Changes in Net Position</b>				
Net Position Beginning of Period	\$ 789,574	\$ 75,434	\$ 25,196	\$ 890,204
Net Costs of Operations	(407,059)	(468,394)	(54,001)	(929,454)
Non-exchange Revenue	405,519	--	92,432	497,951
Net Transfers In/Out	(1,552,209)	(114,483)	--	(1,666,692)
Other (Note 21)	1,560,477	641,699	5,900	2,208,076
<b>Change in Net Position</b>	<b>\$ 6,728</b>	<b>\$ 58,822</b>	<b>\$ 44,331</b>	<b>\$ 109,881</b>
<b>Net Position End of Period</b>	<b>\$ 796,302</b>	<b>\$ 134,256</b>	<b>\$ 69,527</b>	<b>\$ 1,000,085</b>

## 19. Intra-governmental Costs and Exchange Revenue

Intra-governmental costs represent exchange transactions made between two reporting entities within the Federal Government and are presented separately from costs with the public (exchange transactions made between the reporting entity and a non-Federal entity). Intra-governmental exchange revenue is disclosed separately from exchange revenue with the public. The criteria used for this classification requires that the intra-governmental expenses relate to the source of goods and services purchased by the reporting entity and not to the classification of related revenue. With intra-governmental costs, the buyer and seller are both Federal entities. If a Federal entity purchases goods or services from another Federal entity and sells them to the public, the exchange revenue would be classified as “with the public,” but the related costs would be classified as intra-governmental. The purpose of this classification is to enable the Federal Government to provide consolidated financial statements, and not to match public and intra-governmental revenue with costs that are incurred to produce public and intra-governmental revenue.

# Notes to Financial Statements

The Consolidated Statement of Net Cost reflects intra-governmental and public cost and exchange revenue as summarized below for the years ended September 30, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
<b>Border Security Inspections and Trade Facilitation at Ports of Entry</b>		
Intra-governmental Costs	\$ 2,138,553	\$ 2,026,646
Public Costs	4,471,361	4,493,235
<b>Total Border Security Inspections and Trade Facilitation at Ports of Entry Costs</b>	<b>\$ 6,609,914</b>	<b>\$ 6,519,881</b>
Less: Intra-governmental Earned Revenue	66,508	86,882
Less: Public Earned Revenue	94,966	68,907
<b>Total Border Security Inspections and Trade Facilitation at Ports of Entry Revenue</b>	<b>\$ 161,474</b>	<b>\$ 155,789</b>
<b>Border Security and Control Between Ports of Entry</b>		
Intra-governmental Costs	1,506,562	1,519,180
Public Costs	3,128,379	3,368,143
<b>Total Border Security and Control Between Ports of Entry Costs</b>	<b>\$ 4,634,941</b>	<b>\$ 4,887,323</b>
Less: Intra-governmental Earned Revenue	56,732	65,127
Less: Public Earned Revenue	53,465	51,653
<b>Total Border Security and Control Between Ports of Entry Revenue</b>	<b>\$ 110,197</b>	<b>\$ 116,780</b>
<b>Border Security Fencing, Infrastructure, and Technology</b>		
Intra-governmental Costs	85,315	28,350
Public Costs	276,737	62,854
<b>Total Border Security Fencing, Infrastructure, and Technology Costs</b>	<b>\$ 362,052</b>	<b>\$ 91,204</b>
Less: Intra-governmental Earned Revenue	167	1,215
Less: Public Earned Revenue	--	964
<b>Total Border Security Fencing, Infrastructure, and Technology Revenue</b>	<b>\$ 167</b>	<b>\$ 2,179</b>
<b>Automation Modernization</b>		
Intra-governmental Costs	14,455	67,963
Public Costs	301,160	150,681
<b>Total Automation Modernization Costs</b>	<b>\$ 315,615</b>	<b>\$ 218,644</b>
Less: Intra-governmental Earned Revenue	--	2,913
Less: Public Earned Revenue	(1)	2,311
<b>Total Automation Modernization Revenue</b>	<b>\$ (1)</b>	<b>\$ 5,224</b>
<b>Air and Marine Operations</b>		
Intra-governmental Costs	191,259	188,949
Public Costs	508,946	418,916
<b>Total Air and Marine Operations Costs</b>	<b>\$ 700,205</b>	<b>\$ 607,865</b>
Less: Intra-governmental Earned Revenue	2,698	8,100
Less: Public Earned Revenue	3,598	6,424
<b>Total Air and Marine Operations Revenue</b>	<b>\$ 6,296</b>	<b>\$ 14,524</b>
<b>Net Cost of Operations</b>	<b>\$ 12,344,594</b>	<b>\$ 12,030,421</b>

## 20. Sub-Organization Program Costs/Program Costs by Strategic 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 mission or major line of activity, as applicable to the reporting period. The net cost of operations is the gross (i.e. total) cost incurred by CBP less any exchange (i.e. earned) revenue.

The strategic goals identified in the following tables changed between FY 2011 and 2012 due to the issuance of the DHS Strategic Plan for fiscal years 2012 through 2016. The DHS Strategic Plan is the result of the DHS Quadrennial Homeland Security Review (QHRSR), which established a unified, strategic framework for homeland security missions and goals. The FY 2011 presentation was not restated in the FY 2012 format because the FY 2012 strategic goals are not applicable for FY 2011 reporting.

In addition, “Anti-Terrorism” was identified as a subprogram under “Border Security Inspections and Trade Facilitation at Ports of Entry” for FY 2011. In FY 2012, anti-terrorism is part of a strategic goal (“Fostering a Safe & Secure Homeland”); therefore, “Anti-Terrorism” is no longer broken out as a sub-program.

# Notes to Financial Statements

For the year ended September 30, 2012 (in thousands):

Schedule of Net Cost by Program and Responsibility Segment	2012					
	Fostering a Safe & Secure Homeland	Enforcing & Administering Our Immigration Laws	Ensuring Resilience to Disasters	Providing Essential Support National, Economic and Homeland Security	Intra-Entity Eliminations	Consolidated Total
<b>Border Security Inspections and Trade Facilitation at Ports of Entry</b>						
Gross Costs:						
Passenger Processing	\$ 2,553,008	\$ 1,802,565	\$ --	\$ --	\$ 543,065	\$ 3,812,508
Trade Compliance	2,181,611	--	--	764,588	360,738	2,585,461
Outbound	242,459	--	--	--	30,514	211,945
Total Gross Costs	\$ 4,977,078	\$ 1,802,565	\$ --	\$ 764,588	\$ 934,317	\$ 6,609,914
Less: Earned Revenue	1,004,037	408,924	--	139,287	1,390,774	161,474
Net Program Costs	\$ 3,973,041	\$ 1,393,641	\$ --	\$ 625,301	\$ (456,457)	\$ 6,448,440
<b>Border Security and Control Between Ports of Entry</b>						
Gross Costs	\$ 5,109,073	\$ --	\$ --	\$ --	\$ 474,132	\$ 4,634,941
Less: Earned Revenue	147,833	--	--	--	37,636	110,197
Net Program Costs	\$ 4,961,240	\$ --	\$ --	\$ --	\$ 436,496	\$ 4,524,744
<b>Border Security Fencing, Infrastructure and Technology</b>						
Gross Costs	\$ 315,932	\$ 32,919	\$ 2	\$ 13,199	\$ --	\$ 362,052
Less: Earned Revenue	137	22	--	8	--	167
Net Program Costs	\$ 315,795	\$ 32,897	\$ 2	\$ 13,191	\$ --	\$ 361,885
<b>Automation Modernization</b>						
Gross Costs	\$ 205,639	\$ 80,028	\$ 8	\$ 29,940	\$ --	\$ 315,615
Less: Earned Revenue	(1)	--	--	--	--	(1)
Net Program Costs	\$ 205,640	\$ 80,028	\$ 8	\$ 29,940	\$ --	\$ 315,616
<b>Air and Marine Operations</b>						
Gross Costs	\$ 722,285	\$ --	\$ 229	\$ --	\$ 22,309	\$ 700,205
Less: Earned Revenue	8,614	--	30	--	2,348	6,296
Net Program Costs	\$ 713,671	\$ --	\$ 199	\$ --	\$ 19,961	\$ 693,909
<b>Net Cost of Operations</b>	<u>\$ 10,169,387</u>	<u>\$ 1,506,566</u>	<u>\$ 209</u>	<u>\$ 668,432</u>	<u>\$ --</u>	<u>\$ 12,344,594</u>

# Notes to Financial Statements

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

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

## 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 Land Border Inspection Fees, Immigration Enforcement Fees, International Registered Traveler Program Fees, Electronic Systems for Travel Authorization Fees, Customs User Fees, and amounts from Abandoned and Seized Goods. These amounts are identified as Budgetary Financing Sources because CBP recognizes budget authority related to the collections. Non-exchange Revenue reported under Other Financing Sources as Other, includes Immigration User Fees, User Fees for Small Airports, and Customs Merchandise Processing Fees, which represent revenue reported in receipt accounts for which CBP does not have available budgetary authority. Also reported under Other Financing Sources as Other, is the accounts receivable related portion of Customs User Fees.

## 22. Adjustment to Unobligated Balance, Brought Forward, October 1

The adjustment to unobligated balance, brought forward, October 1, 2011 consists of \$639.9 million in COBRA User Fees that resulted from a temporary fee increase and elimination of the North American Free Trade Agreement (NAFTA) country exemptions from 1994 to 1997. The fees are restricted by law for use until made available as provided in Appropriation Acts. The FY 2012 reporting change resulted from new guidance received from OMB in August 2012, which included creating a new unavailable receipt account for CBP to report these additional fees and reducing budgetary resources rather than reporting as an unapportioned balance.

CBP will report the \$639.9 million in user fees as “Non-budgetary” Fund Balance with Treasury until the collections are either withdrawn by Treasury from CBP’s account or made available to CBP by law.

# Notes to Financial Statements

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

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

<b>2012</b>	<b>Apportionment Category A</b>	<b>Apportionment Category B</b>	<b>Exempt from Apportionment</b>	<b>Total</b>
Obligations Incurred - Direct	\$ 8,761,186	\$ 3,714,385	\$ 1,820,615	\$ 14,296,186
Obligations Incurred - Reimbursable	1,536,596	80,046	--	1,616,642
<b>Total Obligations Incurred</b>	<b>\$ 10,297,782</b>	<b>\$ 3,794,431</b>	<b>\$ 1,820,615</b>	<b>\$ 15,912,828</b>

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

## 24. Appropriations

As of September 30, 2012 and 2011, the Combined Statements of Budgetary Resources consist of appropriations totaling \$13.7 billion and \$12.4 billion, respectively. This differs from the Consolidated Statements of Changes in Net Position as of September 30, 2012 and 2011, which consist of appropriations received totaling \$8.0 billion and \$8.3 billion, respectively. This difference is due to CBP's non-entity activity, which as of September 30, 2012 and 2011 consists of \$1.8 billion and \$1.3 billion, respectively, for Refund and Drawback activity, \$3.5 billion and \$2.8 billion, respectively, for user/inspection fees and subsidy activity, which are not reported on the Consolidated Statements of Changes in Net Position, \$17.0 million in rescissions, which are reported separately on the Consolidated Statements of Changes in Net Position, and \$362.1 million in non-expenditure transfers, which 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 and indefinite appropriation, which is used to disburse tax and duty refunds and duty drawbacks. Although funded through an appropriation, refund and drawback activity is, in most instances, reported as a custodial activity. Refunds are custodial revenue-related activity in that refunds are a direct result of importer overpayments of duties, taxes and fees. Federal tax revenue received from taxpayers is not available for use in the operation of CBP and is not reported on the Consolidated Statements of Net Cost. Likewise, the refunds of overpayments are not available for use by CBP in its operations. Refunds and drawback disbursements totaled \$2.3 billion and \$1.3 billion for fiscal years ended September 30, 2012 and 2011, and are presented as a use of custodial revenue on the Consolidated Statements of Custodial Activity. This appropriation is not subject to

# Notes to Financial Statements

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

## 25. Legal Arrangements Affecting the Use of Unobligated Balances

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

Included in the cumulative results of operations for special funds is \$1.2 billion at September 30, 2012, that represents CBP's authority to assess and collect user fees relating to merchandise and passenger processing, to assess and collect fees associated with the services performed at certain small airports or other facilities, retain amounts needed to offset costs associated with collecting duties, and taxes and fees for the government of Puerto Rico. These special fund balances are restricted by law and in their use to offset specific costs incurred by CBP. The passenger fees in the COBRA User Fee Account, totaling approximately \$68.4 million, as of September 30, 2012 are restricted by law in its 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.

# Notes to Financial Statements

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

The table below documents the material differences between the FY 2011 Combined Statement of Budgetary Resources and the actual amounts reported for FY 2011 in the Budget of the United States Government. Since the FY 2012 financial statements are reported prior to the Budget of the United States Government, CBP is reporting for FY 2011 only. Typically, the Budget of the United States Government with the FY 2012 actual data is published in February of the subsequent year. Once published, the FY 2012 actual data will be available at OMB website, [www.whitehouse.gov/omb](http://www.whitehouse.gov/omb).

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

2011	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
<b>Combined Statement of Budgetary Resources</b>	\$ 16,996,688	\$ 14,728,316	\$ 2,764,695	\$ 10,237,311
Differences:				
Expired Appropriation Not Included in President's Budget	(444,755)	(106,848)	--	--
Refunds and Drawbacks Not Included in President's Budget (70X0505)	(1,186,381)	(1,186,381)	--	(1,178,322)
Injured Domestic Industries Not Included in President's Budget (20X5688)	(638,450)	(125,805)	--	(125,805)
Offsetting Receipts Not Included in the Treasury Annual Report	--	--	56,282	2,764,695
Miscellaneous	(3,000)	(2,000)	1,000	--
<b>Total Differences</b>	<b>(2,272,586)</b>	<b>(1,421,034)</b>	<b>57,282</b>	<b>1,460,568</b>
<b>Budget of the U.S. Government</b>	<b>\$ 14,724,102</b>	<b>\$ 13,307,282</b>	<b>\$ 2,821,977</b>	<b>\$ 11,697,879</b>

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

## 27. Undelivered Orders at the End of Period

An undelivered order exists when a valid obligation has occurred and funds have been reserved, but the goods or services have not been delivered and have not been prepaid. Undelivered orders for the period ended September 30, 2012 and 2011 (in thousands):

	2012	2011
Unpaid	\$ 3,314,498	\$ 3,997,996
Upward/Downward Adjustment of Prior Period	(314,629)	(569,687)
<b>Total Undelivered Orders at the End of Period</b>	<b>\$ 2,999,869</b>	<b>\$ 3,428,309</b>

# Notes to Financial Statements

## 28. Custodial Revenues

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

The increase in refund activity during FY 2012 is due to the October 1, 2011 enactment of the Trade Adjustment Assistance Extension Act of 2011 (HR2832) and the United States-Colombia Trade Promotion Agreement Implementation Act (HR 3078) which were retroactive to January 1, 2011. In addition, as noted in the Other Liabilities note, CBP disbursed \$332.0 million in CDSOA funds from FY 2006 through FY 2010 that had been previously held under pending litigation. Disbursements from the Refunds and Drawback account for the fiscal year ended September 30, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Refunds	\$ 1,511,468	\$ 661,562
Drawback	739,001	686,066
<b>Total</b>	<u>\$ 2,250,469</u>	<u>\$ 1,347,628</u>

Amounts refunded during FY 2012 and 2011 identified by entry year consist of the following (in thousands):

<u>Entry Year</u>	<u>2012</u>	<u>Entry Year</u>	<u>2011</u>
2012	\$ 951,810	2011	\$ 719,917
2011	707,087	2010	270,903
2010	89,277	2009	89,591
2009	37,503	2008	67,732
Prior Years	464,792	Prior Years	199,485
<b>Total</b>	<u>\$ 2,250,469</u>	<b>Total</b>	<u>\$ 1,347,628</u>

The total amount of antidumping and countervailing duties varies from year to year, depending on decisions from Department of Commerce. Antidumping and countervailing duty refunds (included in total refunds presented above) and associated interest refunded for the fiscal years ended September 30, 2012 and 2011, consisted of the following (in thousands):

	<u>2012</u>	<u>2011</u>
Antidumping and Countervailing Duty Refunds	\$ 133,994	\$ 113,932
Interest	7,036	7,945
<b>Total</b>	<u>\$ 141,030</u>	<u>\$ 121,877</u>

# Notes to Financial Statements

## 29. 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, 2012 and 2011 (in thousands).

	<u>2012</u>	<u>2011</u>
<b>Resources Used to Finance Activities:</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$ 15,912,828	\$ 14,728,316
Less: Spending Authority from Offsetting Collections and Recoveries	1,969,582	2,066,191
Obligations Net of Offsetting Collections and Recoveries	\$ 13,943,246	\$ 12,662,125
Less: Offsetting Receipts	3,499,993	2,764,695
Net Obligations	<u>\$ 10,443,253</u>	<u>\$ 9,897,430</u>
<b>Other Resources</b>		
Transfers In/Out Without Reimbursement	60,926	40,556
Imputed Financing from Costs Absorbed by Others	645,076	710,128
Other (Note 21)	2,887,095	2,137,986
Net Other Resources Used to Finance Activities	<u>\$ 3,593,097</u>	<u>\$ 2,888,670</u>
<b>Total Resources Used to Finance Activities</b>	<u>\$ 14,036,350</u>	<u>\$ 12,786,100</u>
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered, But Not Yet Provided	\$ (403,627)	\$ (397,968)
Resources That Fund Expenses Recognized in Prior Periods	33,171	5,148
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations	(570,282)	(561,946)
Resources That Finance the Acquisition of Assets or Liquidation of Liabilities	983,638	1,025,765
Tax Revenue Refunds and Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	2,204,916	1,293,721
<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	<u>\$ 2,247,816</u>	<u>\$ 1,364,720</u>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<u>\$ 11,788,534</u>	<u>\$ 11,421,380</u>
<b>Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:</b>		
<b>Components Requiring or Generating Resources in Future Periods</b>		
Increase in Annual Leave Liability and Environmental Liability	\$ 1,138	\$ 25,902
Change in Actuarial FECA Liability, Legal Contingent Liabilities and Other	66,718	53,831
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	<u>\$ 67,856</u>	<u>\$ 79,733</u>
<b>Components Not Requiring or Generating Resources</b>		
Depreciation and Amortization	\$ 629,967	\$ 610,797
Revaluation of Assets or Liabilities	(18,760)	(10,360)
Other Non-Budgetary Resources	(123,003)	(71,129)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	<u>\$ 488,204</u>	<u>\$ 529,308</u>
<b>Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b>	<u>\$ 556,060</u>	<u>\$ 609,041</u>
<b>Net Cost of Operations</b>	<u><u>\$ 12,344,594</u></u>	<u><u>\$ 12,030,421</u></u>

# Required Supplementary Information

## Deferred Maintenance and Repairs

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.

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

	<b>2012</b>	
	<b>Condition Assessment</b>	<b>Deferred Maintenance and Repairs</b>
Building and Structures	Poor to Good	\$ 97,802
Vehicles	Good	--
Equipment	Good	--
Multi-Use Heritage Assets	Good	--
Collections (documents and artifacts)	Poor to Good	--
<b>Total</b>		<u><u>\$ 97,802</u></u>

	<b>2011</b>	
	<b>Condition Assessment</b>	<b>Deferred Maintenance and Repairs</b>
Building and Structures	Poor to Good	\$ 94,000
Vehicles	Good	31
Equipment	Good	42
Multi-Use Heritage Assets	Good	--
Collections (documents and artifacts)	Poor to Good	--
<b>Total</b>		<u><u>\$ 94,073</u></u>

## Statement of Budgetary Resources (SBR)

The total Budgetary Resources of \$17.2 billion for FY 2012 includes new budget authority, unobligated balances at the beginning of the year and transferred in/out, spending authority from offsetting collections, recoveries of prior year obligations and adjustments.

# Required Supplementary Information (Unaudited)

## Schedule of Budgetary Resources by Major Budget Accounts:

As of September 30, 2012 (in thousands):	Salaries & Expense	Air & Marine	BSFIT	Construction	Automation	Other	Total
<b>Budgetary Resources</b>							
Unobligated balances brought forward, Oct 1	\$ 295,328	\$ 79,856	\$ 403,880	\$ 52,217	\$ 90,036	\$ 1,347,055	\$ 2,268,372
Adjustment to unobligated balance brought forward, Oct 1	--	--	--	--	--	(639,940)	(639,940)
Unobligated balance brought forward, Oct 1, as adjusted	\$ 295,328	\$ 79,856	\$ 403,880	\$ 52,217	\$ 90,036	\$ 707,115	\$ 1,628,432
Recoveries of prior year unpaid obligations	138,966	25,950	71,894	83,846	21,331	9,249	351,236
Other changes in unobligated balance	(90,371)	(1,613)	--	(1,401)	--	--	(93,385)
Unobligated balance from prior year budget authority, net	343,923	104,193	475,774	134,662	111,367	716,364	1,886,283
Appropriations	9,054,230	503,966	378,100	236,596	329,275	3,216,896	13,719,063
Spending authority from offsetting collections:	1,583,428	4,905	372	--	--	29,641	1,618,346
<b>Total budgetary resources</b>	<b>\$ 10,981,581</b>	<b>\$ 613,064</b>	<b>\$ 854,246</b>	<b>\$ 371,258</b>	<b>\$ 440,642</b>	<b>\$ 3,962,901</b>	<b>\$ 17,223,692</b>
<b>Status of Budgetary Resources</b>							
Obligations incurred (Note 23)	\$ 10,713,308	\$ 543,287	\$ 447,086	\$ 329,756	\$ 341,398	\$ 3,537,993	\$ 15,912,828
Unobligated balance, end of year:							
Apportioned	26,551	68,239	404,624	91	99,173	39,832	638,510
Unapportioned	241,722	1,538	2,536	41,411	71	385,076	672,354
Total unobligated balance, end of year	268,273	69,777	407,160	41,502	99,244	424,908	1,310,864
<b>Total status of budgetary resources</b>	<b>\$ 10,981,581</b>	<b>\$ 613,064</b>	<b>\$ 854,246</b>	<b>\$ 371,258</b>	<b>\$ 440,642</b>	<b>\$ 3,962,901</b>	<b>\$ 17,223,692</b>
<b>Change in Obligated Balances</b>							
Unpaid obligations brought forward, Oct 1 (gross)	\$ 1,851,440	\$ 615,779	\$ 688,048	\$ 1,075,435	\$ 244,740	\$ 237,725	\$ 4,713,167
Uncollected customer payments from Federal sources brought forward, Oct 1	(162,650)	(301)	--	--	--	(945)	(163,896)
Obligated balance, start of year (net), before adjustments	\$ 1,688,790	\$ 615,478	\$ 688,048	\$ 1,075,435	\$ 244,740	\$ 236,780	\$ 4,549,271
Obligated balance, start of year (net), as adjusted	1,688,790	615,478	688,048	1,075,435	244,740	236,780	4,549,271
Obligations incurred (Note 23)	10,713,308	543,287	447,086	329,756	341,398	3,537,993	15,912,828
Outlay (gross)	(10,664,058)	(528,485)	(418,374)	(626,659)	(387,803)	(3,491,900)	(16,117,279)
Change in uncollected customer payments from Federal sources	1,593	(62)	(167)	--	--	(88)	1,276
Recoveries of prior year unpaid obligations	(138,966)	(25,950)	(71,894)	(83,846)	(21,331)	(9,249)	(351,236)
Obligated balance, end of year							
Unpaid obligations, end of year (gross)	1,761,724	604,631	644,866	694,686	177,004	274,569	4,157,480
Uncollected customer payments from Federal sources, end of year	(161,057)	(363)	(167)	--	--	(1,033)	(162,620)
Obligated balance, end of year (net)	<b>\$ 1,600,667</b>	<b>\$ 604,268</b>	<b>\$ 644,699</b>	<b>\$ 694,686</b>	<b>\$ 177,004</b>	<b>\$ 273,536</b>	<b>\$ 3,994,860</b>
<b>Budget Authority and Outlays, Net:</b>							
Budget authority, gross	\$ 10,637,658	\$ 508,871	\$ 378,472	\$ 236,596	\$ 329,275	\$ 3,246,537	\$ 15,337,409
Actual offsetting collections	(1,585,021)	(4,843)	(205)	--	--	(29,553)	(1,619,622)
Change in uncollected customer payment from Federal sources	1,593	(62)	(167)	--	--	(88)	1,276
Budget authority, net	<b>\$ 9,054,230</b>	<b>\$ 503,966</b>	<b>\$ 378,100</b>	<b>\$ 236,596</b>	<b>\$ 329,275</b>	<b>\$ 3,216,896</b>	<b>\$ 13,719,063</b>
Outlays, gross	\$ 10,664,058	\$ 528,485	\$ 418,374	\$ 626,659	\$ 387,803	\$ 3,491,900	\$ 16,117,279
Actual offsetting collections	(1,585,021)	(4,843)	(205)	--	--	(29,553)	(1,619,622)
Outlays, net	9,079,037	523,642	418,169	626,659	387,803	3,462,347	14,497,657
Distributed offsetting receipts	--	--	--	--	--	(3,499,993)	(3,499,993)
<b>Agency outlays, net</b>	<b>\$ 9,079,037</b>	<b>\$ 523,642</b>	<b>\$ 418,169</b>	<b>\$ 626,659</b>	<b>\$ 387,803</b>	<b>\$ (37,646)</b>	<b>\$ 10,997,664</b>

# Required Supplementary Information (Unaudited)

## Schedule of Budgetary Resources by Major Budget Accounts:

As of September 30, 2011 (in thousands):	Salaries & Expense	Air & Marine	BSFIT	Construction	Automation	Other	Total
<b>Budgetary Resources</b>							
Unobligated balances brought forward, Oct 1	\$ 549,343	\$ 135,464	\$ 324,659	\$ 225,908	\$ 108,113	\$ 1,302,989	\$ 2,646,476
Unobligated balance brought forward, Oct 1, as adjusted	\$ 549,343	\$ 135,464	\$ 324,659	\$ 225,908	\$ 108,113	\$ 1,302,989	\$ 2,646,476
Recoveries of prior year unpaid obligations	237,751	55,455	103,071	176,085	26,884	8,170	607,416
Other changes in unobligated balance	(75,228)	--	--	(3,290)	--	--	(78,518)
Unobligated balance from prior year budget authority, net	711,866	190,919	427,730	398,703	134,997	1,311,159	3,175,374
Appropriations	8,486,385	515,293	423,533	152,924	346,393	2,438,011	12,362,539
Spending authority from offsetting collections:	1,429,332	1,954	--	--	--	27,489	1,458,775
<b>Total budgetary resources</b>	<b>\$ 10,627,583</b>	<b>\$ 708,166</b>	<b>\$ 851,263</b>	<b>\$ 551,627</b>	<b>\$ 481,390</b>	<b>\$ 3,776,659</b>	<b>\$ 16,996,688</b>
<b>Status of Budgetary Resources</b>							
Obligations incurred (Note 23)	\$ 10,332,256	\$ 628,311	\$ 447,383	\$ 499,410	\$ 391,353	\$ 2,429,603	\$ 14,728,316
Unobligated balance, end of year:							
Apportioned	15,933	63,475	379,740	253	77,188	91,211	627,800
Unapportioned	279,394	16,380	24,140	51,964	12,849	1,255,845	1,640,572
Total unobligated balance, end of year	295,327	79,855	403,880	52,217	90,037	1,347,056	2,268,372
<b>Total status of budgetary resources</b>	<b>\$ 10,627,583</b>	<b>\$ 708,166</b>	<b>\$ 851,263</b>	<b>\$ 551,627</b>	<b>\$ 481,390</b>	<b>\$ 3,776,659</b>	<b>\$ 16,996,688</b>
<b>Change in Obligated Balances</b>							
Unpaid obligations brought forward, Oct 1 (gross)	\$ 2,040,587	\$ 654,213	\$ 739,478	\$ 1,231,305	\$ 214,525	\$ 181,332	\$ 5,061,440
Uncollected customer payments from Federal sources brought forward, Oct 1	(167,926)	(519)	--	--	--	(3,843)	(172,288)
Obligated balance, start of year (net), before adjustments	\$ 1,872,661	\$ 653,694	\$ 739,478	\$ 1,231,305	\$ 214,525	\$ 177,489	\$ 4,889,152
Adjustment to obligated balance, start of year (net)	--	--	--	--	--	--	--
Obligated balance, start of year (net), as adjusted	1,872,661	653,694	739,478	1,231,305	214,525	177,489	4,889,152
Obligations incurred (Note 23)	10,332,256	628,311	447,383	499,410	391,353	2,429,603	14,728,316
Outlay (gross)	(10,283,652)	(611,290)	(395,743)	(479,194)	(334,254)	(2,365,040)	(14,469,173)
Change in uncollected customer payments from Federal sources	5,276	218	--	--	--	2,898	8,392
Recoveries of prior year unpaid obligations	(237,751)	(55,455)	(103,071)	(176,085)	(26,884)	(8,170)	(607,416)
Obligated balance, end of year							
Unpaid obligations, end of year (gross)	1,851,440	615,779	688,047	1,075,436	244,740	237,725	4,713,167
Uncollected customer payments from Federal sources, end of year	(162,650)	(301)	--	--	--	(945)	(163,896)
Obligated balance, end of year (net)	<b>\$ 1,688,790</b>	<b>\$ 615,478</b>	<b>\$ 688,047</b>	<b>\$ 1,075,436</b>	<b>\$ 244,740</b>	<b>\$ 236,780</b>	<b>\$ 4,549,271</b>
<b>Budget Authority and Outlays, Net:</b>							
Budget authority, gross	\$ 9,915,717	\$ 517,247	\$ 423,533	\$ 152,924	\$ 346,393	\$ 2,465,500	\$ 13,821,314
Actual offsetting collections	(1,434,608)	(2,172)	--	--	--	(30,387)	(1,467,167)
Change in uncollected customer payment from Federal sources	5,276	218	--	--	--	2,898	8,392
Budget authority, net	<b>\$ 8,486,385</b>	<b>\$ 515,293</b>	<b>\$ 423,533</b>	<b>\$ 152,924</b>	<b>\$ 346,393</b>	<b>\$ 2,438,011</b>	<b>\$ 12,362,539</b>
Outlays, gross	\$ 10,283,652	\$ 611,290	\$ 395,743	\$ 479,194	\$ 334,254	\$ 2,365,040	\$ 14,469,173
Actual offsetting collections	(1,434,608)	(2,172)	--	--	--	(30,387)	(1,467,167)
Outlays, net	8,849,044	609,118	395,743	479,194	334,254	2,334,653	13,002,006
Distributed offsetting receipts	--	--	--	--	--	(2,764,695)	(2,764,695)
<b>Agency outlays, net</b>	<b>\$ 8,849,044</b>	<b>\$ 609,118</b>	<b>\$ 395,743</b>	<b>\$ 479,194</b>	<b>\$ 334,254</b>	<b>\$ (430,042)</b>	<b>\$ 10,237,311</b>

# 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 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 2012 and 2011, CBP had the legal right to collect \$2.7 billion of receivables. In addition, there were \$2.6 billion and \$2.3 billion representing records still in the protest phase for FY 2012 and 2011, respectively. CBP recognized as write-offs \$78.4 million and \$109.0 million of assessments that the Department has statutory authority to collect at September 30, 2012 and 2011, but has no future collection potential. Most of this amount represents fines, penalties and interest.

# Auditors' Report

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## Independent Auditors' Report

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



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

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

MAR 22 2013

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

FROM: Anne L. Richards   
Assistant Inspector General for Audits

SUBJECT: *Independent Auditors' Report on U.S. Customs and Border Protection's FY 2012 Financial Statements*

Attached for your action is our final report, *Independent Auditors' Report on U.S. Customs and Border Protection's FY 2012 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 statement audits for fiscal years (FY) 2012 and 2011. We contracted with the independent public accounting firm KPMG LLP to perform the audits. KPMG LLP concluded that CBP's consolidated financial statements as of and for the years ended September 30, 2012, and September 30, 2011, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

The FY 2012 independent auditors' report also contains observations and 18 recommendations related to internal control weaknesses that were considered significant deficiencies and were required to be reported in the financial statement audit report. The four significant deficiencies in internal controls are presented below; the first significant deficiency is considered to be a material weakness. Your office concurred with the one material weakness and three other significant deficiencies presented below:

**Significant Deficiencies in Internal Control**

- A. Drawback of Duties, Taxes, and Fees
- B. Property, Plant, and Equipment
- C. Entry Process
  - 1. In-Bond Program
  - 2. Bonded Warehouse and Foreign Trade Zones
  - 3. Entry Reports
- D. Information Technology



## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

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KPMG LLP is responsible for the attached independent auditors' report dated January 25, 2012, and the conclusions expressed in the report. We do not express opinions on financial statements or internal control or conclusions on compliance with laws and regulations.

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

Please call me with any questions, or your staff may contact Mark Bell, Deputy Assistant Inspector General for Audits, at (202)254-4100.

Attachment

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Department of Homeland Security  
**Office of Inspector General**

**Independent Auditors' Report on U.S. Customs and  
Border Protection's FY 2012 Financial Statements**



OIG-13-53

March 2013



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

## Independent Auditors' Report

Inspector General  
U.S. Department of Homeland Security:

Deputy Commissioner  
U.S. Customs and Border Protection:

We have audited the accompanying consolidated balance sheets of the U.S. Customs and Border Protection (CBP), a Component of the U.S. Department of Homeland Security (DHS), as of September 30, 2012 and 2011, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2012 audit, we also considered CBP's internal control over financial reporting and tested CBP's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated financial statements.

### Summary

As stated in our opinion on the consolidated financial statements, we concluded that CBP's consolidated financial statements as of and for the years ended September 30, 2012 and 2011, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our Opinion on the Financial Statements, CBP changed its presentation for reporting the Statement of Budgetary Resources and changed its method of accounting for certain user fees in fiscal year 2012.

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

#### Material Weakness:

- A. Drawback of Duties, Taxes, and Fees

#### Significant Deficiencies:

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

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

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.



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

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of the U.S. Customs and Border Protection, a component of the U.S. Department of Homeland Security, as of September 30, 2012 and 2011, and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CBP as of September 30, 2012 and 2011, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, CBP changed its presentation for reporting the combined statement of budgetary resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. As a result, CBP's combined statement of budgetary resources for fiscal year 2011 has been reclassified to conform to the current year presentation.

As discussed in Note 22, CBP changed its method of accounting for certain user fees. These accounting changes were reflected in the fiscal year 2012 financial statements.

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 financial statements. Such information, although not a part of the basic 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 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 financial statements, and other knowledge we obtained during our audits of the basic 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.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information in the Commissioner's Message, Performance Section, Message from the Chief Financial Officer, Other Accompanying Information, and Acronyms as reflected in CBP's *Fiscal Year 2012 Performance and Accountability Report* is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

### **Internal Control Over Financial Reporting**

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal



control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, in our fiscal year 2012 audit, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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

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

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

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

### **Compliance and Other Matters**

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

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### **Responsibilities**

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

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2012 and 2011 consolidated financial statements of CBP based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CBP's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;



- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

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

In planning and performing our fiscal year 2012 audit, we considered CBP's internal control over financial reporting by obtaining an understanding of CBP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of CBP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CBP's internal control over financial reporting. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether CBP's fiscal year 2012 consolidated financial statements are free of material misstatement, we performed tests of CBP's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to CBP. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

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CBP's written response to the findings identified in our audit is presented in Management's Response to the Independent Auditors' Report. Management's response was not subjected to the auditing procedures applied in the audit of CBP's consolidated financial statements and, accordingly, we express no opinion on it.

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

**KPMG LLP**

January 25, 2013

## Material Weakness

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

#### Background:

U.S. Customs and Border Protection (CBP) performs an important revenue collection function for the U.S. Department of the Treasury. CBP collected approximately \$35.5 billion in import duties, taxes, and fees in fiscal year (FY) 2012 on merchandise arriving in the U.S. from foreign countries.

Drawback is a remittance, in whole or in part, of duties, taxes, or fees previously paid by an importer. Drawback typically occurs when the imported goods, on which duties, taxes, or fees have been previously paid, are subsequently exported from the United States or destroyed prior to entering the commerce of the United States. Depending on the type of drawback claim, the claimant has up to eight years from the date of importation to file for drawback.

The conditions cited below have existed for several years; however, since FY 2009 CBP's planned remediation for many of these conditions was tied to systems modernization through the Automated Commercial Environment (ACE). In recent years, funding for the implementation of ACE has been reduced, and a systems solution is currently unfunded. In FY 2012, CBP continued its efforts to review and reassess the drawback process as a whole.

#### Condition:

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

- CBP is unable to prevent, or detect and correct excessive drawback claims against an entry summary due to the inherent limitations of the Automated Commercial System (ACS) and the lack of controls therein. An entry summary can comprise numerous line items; however, ACS does not have the capability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries (UCEs), their individual line items, or export documentation upon which the drawback claim is based.
- Currently, the drawback module within ACS provides information to ensure that the total amount of all drawback claims against a given import entry does not exceed 100% of the total amount of duties, taxes, and fees collected, at the entry summary level. By law, the amount paid for drawback claims against a given import entry are not to exceed 99% of the duties, taxes, and fees collected at the individual line item level and the entry summary level. In addition, export information is not linked to the drawback module and therefore, electronic comparisons of export data cannot be performed within ACS to ensure that overpayments of drawback claims are not made.
- Drawback review policies do not require Drawback Specialists to review all, or a statistically valid sample, of prior drawback claims against a selected import entry to determine whether, in the aggregate, an excessive amount has been claimed against import entries. CBP utilizes a "validity tree" approach when selecting prior drawback claims for review. The validity tree approach requires CBP to review the largest prior drawback claims; however, this approach is not statistical. In addition, for certain claims drawback review policy and procedures allow Drawback Specialists, with supervisory approval, to judgmentally decrease the number of UCEs reviewed to 30 if the number of UCEs exceeds 30 entries, which decreases the review's effectiveness. Further, CBP's sampling methodology for selecting UCEs is not considered to be statistically valid and CBP's Drawback Handbook does not include procedures for statistically projecting errors identified in the sample.

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

**Cause/Effect:**

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

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

**Criteria:**

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

**Recommendations:**

We recommend that CBP:

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

**CBP Response:**

See management's response included in the attached letter.

## Other Significant Deficiencies

### B. Property, Plant, and Equipment

#### Background:

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

#### Condition:

Improvements over CBP's accounting for Property, Plant, and Equipment (PP&E) were observed in FY 2012; however, several weaknesses remained throughout the fiscal year. Specifically, CBP:

- Did not properly and timely record certain construction-in-progress (CIP) settlement transactions, resulting in the misclassification of assets in the general ledger. The settlement recording delays spanned from one to seventeen months. As a result of these late settlements, depreciation for the assets was understated from the time the assets were placed in service to when the assets were settled. CBP performs a manual journal entry to correct total accumulated depreciation and depreciation expense in the general ledger. In addition, certain assets were identified in which CBP understated the value of its assets that were placed in service. CBP did not recognize the full value of the assets until further invoices were received. Furthermore, CBP incorrectly allocated overhead related to some American Recovery and Reinvestment Act Land Port of Entry construction projects that were incorrectly settled. Subsequent adjustments were made to the assets which caused over and understatements throughout the year.
- Did not detect assets incorrectly recorded, misclassified, or not recorded in the general ledger. Additionally, certain assets were recorded in the general ledger that no longer existed.
- Recorded certain asset additions for an amount other than the amount paid prior to the completion of a construction project, without proper supporting documentation, or in an untimely manner.
- Improperly recorded certain asset retirements. Specifically, some assets that were retired did not have proper approval and/or supporting documentation.
- Did not timely record certain asset retirements and did not properly write-down the value of some assets that were no longer providing their expected services. For the retirement transactions not timely recorded, one month to twelve months lapsed between when an asset was physically removed from service and when it was retired from service in the system.

#### Criteria:

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

#### Cause/Effect:

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

**Recommendations:**

We recommend that CBP:

1. Ensure that existing policies and procedures for the proper recordation of asset additions, transfers and retirements with regard to asset valuations and depreciation are followed, and properly communicated throughout CBP;
2. Determine whether existing policies and procedures regarding purchase orders and goods receipt are sufficient, revise policies where necessary, and communicate policies and procedures to receivers of goods throughout CBP;
3. Establish procedures and training materials to ensure that program offices understand and implement internal controls to transfer completed assets timely and accurately from CIP to final assets; and
4. Request system changes, where possible, to require the submission of detailed supporting documentation and to ensure the proper authorization for retirement has been obtained prior to the completion of asset retirement transactions.

**C. Entry Process****1. In-Bond Program****Background:**

In FY 2012, CBP deployed a new system to replace the existing in-bond oversight functions, called the In-Bond Compliance Module. This module was implemented in early September 2012 and is intended to create a more effective in-bond monitoring system. However, for the majority of the period under audit, CBP was following policies and procedures that led to ineffective and inefficient in-bond processes and was using a system with limitations that restricted CBP's ability to accurately monitor the in-bond process, both at the Headquarters and port levels. The following discussion and conditions relate to processes and procedures that were in place during FY 2012.

*General In-Bond Process*

An in-bond entry allows the movement of cargo through the United States without payment of duty or appraisal prior to entry into domestic or foreign commerce. The cargo may enter commerce after it arrives at the destination port and an entry is filed. An in-bond also allows foreign merchandise arriving at one U.S. port to be transported through the U.S. for exportation from another U.S. port without the payment of duty.

*Compliance Audit and In-Bond*

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

*In-Bond Shipments Overdue for Export (M02) Report*

In-bond shipments overdue for export are included on the M02 report. Items on this report are in-bond movements transmitted by importers or brokers via the Automated Manifest System (AMS), Automated Broker Interface (ABI), or paper that have not exported within the required time limit. Review of the M02 report is designed to identify, but is not limited to,

cargo that has not been exported and therefore may have physically, but not formally entered into U.S. commerce, administrative or clerical errors with paperwork, or system processing errors.

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

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

**Condition:**

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

- Ports were required to submit a summary of post audits conducted and the associated results to Headquarters. However, due to a system limitation in ACS, Headquarters was unable to generate an oversight report to determine if ports had completed all required audits. The In-Bond Exam/Audit Selection report in ACS was designed to provide this function, but did not accurately list the history of all in-bonds selected for audit and was not consistent with the listing of incomplete Tin-Man audits on the In-Bond Exam Audit Table report. With the implementation of the ATS In-Bond Compliance module, Headquarters will be able to generate an oversight report to determine if ports have completed all required audits.
- Headquarters completed a monthly analysis of the post audits and results submitted from the ports to determine the overall compliance rate of the in-bond program. However, documentation of this analysis was not maintained.
- The M02 report was designed to track overdue in-bonds for all modes of export; however, the M02 report was unable to track air in-bonds.
- The design of the M02 and M07 reports led to outdated information being reported on the monitoring reports. Therefore, the ports were instructed to focus on the most recent issues. As a result, there was no requirement for ports to completely resolve all open items on the M02 and M07 reports each time they were reviewed and open items on the reports remained unresolved. Additionally, certain ports were not maintaining the M02 and M07 reports in accordance with documentation retention requirements outlined in policy.
- Certain ports were not performing physical examinations as designated by Tin-Man, were not generating the Tin-Man report at the frequency prescribed in policy, and were not maintaining the Tin-Man reports in accordance with documentation retention requirements outlined in policy.

**Criteria:**

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

**Cause/Effect:**

CBP memorandums and guidelines that outlined field personnel requirements to generate, review, and reconcile items on the Tin-Man, M02, and M07 reports and to retain supporting documentation were not always followed. Due to a flaw in the design of the M02 and M07 reports, there was no requirement for ports to completely resolve all items on the reports each

time the reports were reviewed. Furthermore, ACS system limitations restricted the ability of CBP personnel to accurately monitor the in-bond process, both at the Headquarters and port levels.

The inability to monitor the in-bond process and verify the arrival of in-bond merchandise at the port level effectively could result in the loss of custodial fines and penalties revenue.

The lack of an automated compilation and analysis of audit results at the national level makes it difficult for CBP to ensure complete information is received from the ports in order to determine the effectiveness of in-bond audits and common in-bond errors.

**Recommendations:**

We recommend that CBP perform the following:

1. Monitor the newly implemented In-bond Compliance Module to ensure that the system is functioning correctly;
2. Correct any systemic issues that may develop and ensure corrections are fully implemented at the port level;
3. Provide additional policy and direction, if necessary, after a periodic review of the In-bond Compliance Module; and
4. Provide Headquarters oversight and assistance to the field to ensure that ports are following policies and procedures.

**2. Bonded Warehouse and Foreign Trade Zones****Background:**

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

Foreign Trade Zones (FTZs) are secure areas under CBP supervision considered to be outside of the CBP territory. Authority for establishing these facilities is granted by the Foreign Trade Zones Board under the Foreign Trade Zones Act of 1934, as amended (19 U.S.C. 81a-81u). Foreign and domestic merchandise may be admitted into zones for operations not otherwise prohibited by law, including storage, exhibition, assembly, manufacturing, and processing. Merchandise is admitted into a FTZ by completing CBP Form 214.

The monitoring of BW and FTZ operations is based on the performance of risk assessments and compliance reviews by CBP officers in the field. CBP conducts an annual survey of ports that have BWs and FTZs, the results of which are submitted to Headquarters for compilation and analysis. Headquarters uses the survey results to assist in CBP's determination on the effectiveness of the BW and FTZ programs. CBP developed national databases within ACE to maintain a centralized repository of profiles of bonded facilities and FTZ sites.

**Condition:**

The following weaknesses were identified related to the BW and FTZ programs:

- The national databases within ACE were not designed to document the assessed risk of each BW or FTZ, scheduled compliance review, or the results of compliance reviews. CBP uses Sharepoint to document the assessed risk of each BW or FTZ, scheduled compliance review, and the results of compliance reviews. ACE is the system of record for Facilities Information Resource Management (FIRMS) codes, which are assigned upon approval of a BW and FTZ; however, CBP has not conducted a reconciliation of the FIRMS codes in ACE with the information in Sharepoint. Furthermore, requirements do not exist for Headquarters or the field offices to compare the FIRMS codes in the ACE databases to the compliance review schedules submitted by the ports to ensure that all compliance reviews are being performed.
- CBP performed a year-end analysis over the FY 2012 survey; however, management cannot determine if the information in the analysis is complete and therefore could not determine overall program effectiveness.
- For several FTZs and BWs, CBP was unable to provide evidence that risk assessments were performed at the time of the FY 2012 compliance reviews of the facilities. Additionally, CBP was unable to provide supporting documentation to evidence a compliance review and associated risk assessment was performed during the fiscal year.

**Criteria:**

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

**Cause/Effect:**

Ports do not always follow the required guidelines stated in the *Compliance Review Handbook for Bonded Warehouses* and the *Compliance Review Handbook for Foreign Trade Zones*. CBP does not have updated formal guidance related to Headquarters' monitoring of the BW and FTZ programs, including procedures to ensure all necessary compliance reviews are scheduled and completed.

There is a risk that a BW or FTZ may not be properly monitored by the ports if risk assessments and compliance reviews are not conducted. Additionally, there is a risk that the BW and FTZ programs may not be properly monitored as there is no formal requirement for Headquarters to reconcile the database with the compliance reviews conducted.

**Recommendations:**

We recommend that CBP perform the following:

1. Continue to monitor and review the compliance review results to ensure that the high compliance rate continues;
2. Continue to review facility profiles in ACE to ensure that profiles are constantly updated;
3. Work within the constraint of the current fiscal parameters to develop additional training and information sharing processes for the ports;
4. Continue to provide outreach and guidance to the field as necessary; and
5. Create a Headquarters process to monitor compliance reviews for accuracy and consistency, on a quarterly basis.

### 3. Entry Reports

#### Background:

Per CBP Directives No. 5610-004B, *Resolving Certain ACE Exception and Error Reports*, and No. 5610-006A, *Entry Deletion and Entry or Entry Summary Cancellation*, all ports are required to process specific entry edit/exception reports, including the following:

- The B06, Weekly ACS List of Rejected/Cancelled Entries Report, lists all entries that were either cancelled or placed in rejected status by the end of the previous week.
- The B07, Weekly ACS List of Unpaid/Rejected Entries, provides a cumulative listing of entries in rejected status and entries for which duty, taxes, and fees have not been collected, or if collected, not properly posted to the entry.
- The B08, Weekly Late Report: Entry Releases with No Follow-Up Summaries, is a cumulative listing of entry releases with no processing errors or follow-up entry summary on file in ACS/ACE.
- The B84, Weekly Budget Clearing Account (BCA) and Suspense Item Report, is a cumulative listing of collections that are an intentional posting to a suspense account or collections in an error condition.
- The S21, Cargo Selectivity Weekly Selectivity Delete Report, lists all entries that have been deleted by port personnel during the previous week.
- The Q07, Monthly Unreported Quota Report, is a cumulative listing of quota entries that have not been processed through the quota module or remain in quota rejected status where processing was attempted.

#### Condition:

Several instances of non-compliance with CBP Directives No. 5610-004B and No. 5610-006A were identified at the POEs. Specifically, a lack of segregation of duties was identified over the review process for certain reports, some reports were untimely generated and reviewed, and certain reports were not reviewed.

#### Criteria:

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

#### Cause/Effect:

CBP ports did not follow the policies in place to ensure entry edit/exception reports are generated and reviewed in a timely manner. CBP does not have adequate controls in place to ensure the segregation of duties related to the processing, review, and verification of entry edit/exception reports at the ports. CBP did not properly enforce and communicate directives over entry edit/exception reports to the ports.

Non-performance or inadequate processing, review and verification of entry edit/exception reports may cause CBP to fail to collect all revenue to which it is entitled. Specifically, entries improperly cancelled or deleted, unpaid duties, late entry summaries, duties held in suspense accounts, and unreported quotas could result in a loss of revenue from uncollected duties and fees.

**Recommendation:**

We recommend that CBP reinforce the importance of CBP Directives No. 5610-004B and No. 5610-006A by issuing a reminder memorandum to ensure that entry monitoring reports are generated and regularly reviewed, as specified in the directives.

**D. Information Technology****Background:**

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

**Condition:**

During FY 2012, CBP took corrective action to address prior year IT control deficiencies. For example, CBP made improvements to various system accreditation documentation, reviews of security event logs, and privileged user access management processes. However, during FY 2012 new and continuing general IT control weaknesses were identified that could potentially impact CBP's financial data. The most significant weaknesses from a financial statement audit perspective related to controls over access control, segregation of duties, and configuration management. Collectively, the general IT control weaknesses limit CBP's ability to support assertions that critical financial and operational data confidentiality, integrity, and availability are maintained. Additionally, CBP's current system of record used to process entries imported into the U.S. cannot support all of CBP's operations, which limits CBP's ability to manage and monitor the custodial revenue and drawback processes effectively. Due to the sensitive nature of the issues identified, we will issue a separate restricted distribution report that discusses the general IT control and functionality control deficiencies in greater detail.

**Criteria:**

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

**Cause/Effect:**

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

**Recommendation:**

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

**CBP Response:**

See management's response included in the attached letter.

## Status of Prior Year Material Weakness and Significant Deficiencies

Prior Year Condition	As Reported at September 30, 2011	Status as of September 30, 2012
<b>Drawback of Duties, Taxes, and Fees</b>	<b>Material weakness:</b> The Automated Commercial System (ACS) lacked controls to detect and prevent excessive drawback claims and payments, requiring inefficient compensating manual processes. The drawback review policies did not require Drawback Specialists to review all related drawback claims.	<b>Continue as a material weakness:</b> Weaknesses continue to exist related to the drawback process in fiscal year (FY) 2012. See control finding letter A.
<b>Property, Plant, and Equipment (PP&amp;E)</b>	<b>Significant deficiency:</b> Weaknesses existed related to the untimely transfer of construction-in-progress (CIP) to fixed assets and recording PP&E additions, reclassifications, and retirements. Additionally, weaknesses existed with recording the percentage of completion for certain construction projects. Furthermore, weaknesses existed related to oversight of PP&E, such as not properly performing inventory counts.	<b>Continue as a significant deficiency:</b> Weaknesses continue to exist related to untimely transfer of CIP to fixed assets and recording PP&E additions and retirements. Additionally, weaknesses continue to exist with oversight of PP&E. Several instances were noted regarding incomplete and nonexistent PP&E. See control finding B.
<b>Entry Process – In-Bond</b>	<b>Significant deficiency:</b> Several weaknesses existed related to in-bond, such as lack of official guidance related to monitoring in-bond shipments at the port level, lack of CBP Headquarters review of the in-bond program, and the overall inability to determine the effectiveness of the in-bond program for CBP in its entirety.	<b>Continue as a significant deficiency:</b> Weaknesses continued to exist related to in-bond, such as ACS system issues preventing appropriate Headquarters oversight, inadequate documentation of the monthly in-bond analysis, ineffective monitoring of management reports, and Tin-Man system limitations. See control finding letter C, section 1.
<b>Entry Process –Trade Compliance Measurement (TCM)</b>	<b>Significant deficiency:</b> Weaknesses existed related to TCM, such as inconsistent use of data queries and reports by TCM Coordinators, Automated Commercial Environment (ACE) reporting functionality limitations, inadequate training on ACE capabilities, inadequate monitoring and insufficient review guidance.	<b>Significant deficiency was remediated in FY 2012.</b>
<b>Entry Process – Bonded Warehouse (BW) and Foreign Trade Zones (FTZ)</b>	<b>Significant deficiency:</b> Several weaknesses existed related to the BW and FTZ processes, such as inadequate	<b>Continue as a significant deficiency:</b> Weaknesses continue to exist related to the BW and

**EXHIBIT III**

Prior Year Condition	As Reported at September 30, 2011	Status as of September 30, 2012
	monitoring and documentation.	FTZ programs, such as inadequate monitoring and documentation. See control finding letter C, section 2.
<b>Information Technology (IT)</b>	<b>Significant deficiency:</b> Weaknesses existed related to general IT and application controls and IT functionality. Specifically, these included findings in the area of general IT security planning and management, logical and physical access to programs and data, segregation of duties, software change management, business continuity, and the ability of systems to track financial transactions accurately and completely.	<b>Continue as a significant deficiency:</b> Weaknesses continue to exist related to general IT and application controls and IT functionality. In FY 2012, the majority of prior year findings were unresolved and several new findings were identified. See control finding letter D.

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

<b>Criteria</b>	<b>Reference</b>	<b>Report Exhibit</b>
<i>Code of Federal Regulations, Title 19</i>	Sections 111.23, 111.25, 163.4(a), 163.4(b), 191.15, 191.38, 191.51(b)(1)	I-A
	Sections 18.2(d), 18.6(b), 18.8(b)	II-C-1
	Sections 19.4(a), 146.3	II-C-2
<i>Federal Information Security Management Act</i>		II-D
<i>Federal Manager's Financial Integrity Act</i>		II-B
National Institute of Standards and Technology (NIST) Special Publication (SP) 800-30, <i>Risk Management Guide for Information Technology Systems</i>		II-D
NIST SP 800-37, revision 1, <i>Guide for Applying the Risk Management Framework to Federal Information Systems</i>		II-D
NIST SP 800-53, revision 3, <i>Recommended Security Controls for Federal Information Systems and Organizations</i>		II-D
Office of Management and Budget (OMB) Circular No. A-123, <i>Management's Responsibility for Internal Control</i>		I-A, II-B, II-C-1, II-C-2
OMB Circular No. A-127, <i>Financial Management Systems</i>		II-D
OMB Circular No. A-130, <i>Management of Federal Information Resources</i>		II-D
<i>Standards for Internal Control in the Federal Government</i> issued by the Government Accountability Office (GAO)		II-C-3
Statement of Federal Financial Accounting Standards (SFFAS) No. 6, <i>Accounting for Property, Plant, and Equipment</i>		II-B



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

**JAN 23 2013**

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

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

**SUBJECT:** Management Response – Draft Independent Auditor’s Report on  
CBP’s FY 2012 Financial Statements

Thank you for the opportunity to review and comment on this report. U.S. Customs and Border Protection (CBP) agrees with the Independent Public Accountant, which concluded that CBP’s consolidated financial statements are fairly presented in all material respects and conformity with accounting principles.

CBP has reviewed and concurs with the one material weakness and the three significant deficiencies. Mission Action Plans outlining CBP’s strategy to correct these conditions were completed and provided to the office of the Department of Homeland Security Chief Financial Officer. CBP will continue to work to resolve the auditor identified weaknesses.

I want to thank you for your efforts and look forward to continuing our professional auditing relationship. If you have any questions or would like additional information, please contact me at (202) 344-2300, or have a member of your staff contact Ms. Jaye M. Williams, Executive Director, Financial Operations Directorate, at (202) 344-2364.

A handwritten signature in blue ink that reads "Deborah J. Schilling".

Deborah J. Schilling

## **Appendix A**

### **Report Distribution**

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Should you be unable to access our website, you may submit your complaint in writing to: DHS Office of Inspector General, Attention: Office of Investigations Hotline, 245 Murray Drive, SW, Building 410/Mail Stop 2600, Washington, DC, 20528; or you may call 1 (800) 323-8603; or fax it directly to us at (202) 254-4297.

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



# Other Accompanying Information

This section includes CBP's Schedule of Spending and information on CBP's Revenue Gap, Revenue Collections, Improper Payments Information, and Summary of Financial Statement Audit and Management Assurances. The section is unaudited.

# Other Accompanying Information

## Schedule of Spending

For the Year Ended September 30, 2012  
(in Thousands):

	<b>2012</b>
<b>What Money is Available to Spend?</b>	
Total Resources	\$ 17,223,692
Less: Amount Available but Not Agreed to be Spent	638,510
Less: Amount Not Available to be Spent	672,354
<b>Total Amounts Agreed to be Spent</b>	<b><u>\$ 15,912,828</u></b>
<b>How was the Money Spent?</b>	
Salaries and Expenses	
Personnel Compensation and Benefits	\$ 8,246,702
Contractual Services and Supplies	2,015,430
Acquisition of Assets	399,271
Refunds	2,378
Other	277
Automation Modernization	
Personnel Compensation and Benefits	13,193
Contractual Services and Supplies	243,240
Acquisition of Assets	131,370
Construction	
Personnel Compensation and Benefits	24,064
Contractual Services and Supplies	138,601
Acquisition of Assets	463,994
BSFIT	
Personnel Compensation and Benefits	25,833
Contractual Services and Supplies	207,261
Acquisition of Assets	184,352
Refunds	928
Air & Marine	
Contractual Services and Supplies	396,203
Acquisition of Assets	132,282
Other	
Personnel Compensation and Benefits	1,118,251
Contractual Services and Supplies	139,103
Acquisition of Assets	13,447
Refunds	2,221,099
Total Spending	<u>\$ 16,117,279</u>
Amounts Remaining to be Spent*	<u>\$ (204,451)</u>
<b>Total Amounts Agreed to be Spent</b>	<b><u>\$ 15,912,828</u></b>

\* Amounts Remaining to be Spent is a negative amount because Total Spending represents gross outlays in the current year, regardless of when the obligations were incurred, and Total Amounts Agreed to be Spent represents obligations incurred in the current year.

# Other Accompanying Information (Unaudited)

## Revenue Gap

The Entry Summary of Trade Compliance Measurement (TCM) program collects objective statistical data to determine the compliance level of commercial imports with U.S. trade laws, regulations and agreements, and is used to produce a dollar amount for Estimated Net Under-collections, and a percent of Revenue Gap. The Revenue Gap is a calculated estimate that measures potential loss of revenue owing to noncompliance with trade laws, regulations, and trade agreements using a statistically valid sample of the revenue losses and overpayments detected during TCM entry summary reviews conducted throughout the year.

	<b>FY 2012</b> (Estimated)	<b>FY 2011</b> (Actual)
Revenue Gap	\$ 484.0 mil	\$ 342.0 mil
Revenue Gap of all collectable revenue for year (%)	1.2%	0.9%
Over-Collection	\$ 65.0 mil	\$ 64.0 mil
Under-Collection	\$ 549.0 mil	\$ 406.0 mil
Overall Trade Compliance Rate (%)	96.5%	96.7%

The preliminary overall compliance rate for FY 2012 is 96.47 percent. The final overall trade compliance rate and estimated revenue gap for FY 2012 will be issued in February 2013.

## Petitioned and Protested Schedule

An analysis of the changes in petitioned and protested assessed amounts during FY 2012 and 2011 is as follows (in thousands):

	<b>2012</b>					
	<b>Balance October 1</b>	<b>Additional Assessments</b>	<b>Protest in Favor of Debtor</b>	<b>Net Reduction Administrative Process</b>	<b>Additional Receivable</b>	<b>Balance September 30</b>
Duties	\$ 212,000	\$ 189,374	\$ (4,685)	\$ (77,164)	\$ --	\$ 319,525
Taxes	688	1,049	--	(1,424)	--	313
Fees	1,167	9,822	(67)	(2,635)	--	8,287
Fines/Penalties	1,583,741	901,794	(181,751)	(112)	(377,025)	1,926,647
Interest	185,336	3,883	(2,889)	(13,926)	--	172,404
Antidumping/ Countervailing Duty	293,242	(29,518)	(5,125)	(54,483)	--	204,116
Refunds and Drawback	6,810	3,565	(431)	(5,318)	--	4,626
<b>Totals</b>	<b>\$ 2,282,984</b>	<b>\$ 1,079,969</b>	<b>\$(194,948)</b>	<b>\$ (155,062)</b>	<b>\$ (377,025)</b>	<b>\$ 2,635,918</b>

# Other Accompanying Information (Unaudited)

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

CBP reviews selected entry documentation to determine whether importer payment estimates of duties, taxes and fees were accurate or whether additional supplemental amounts are owed and should be billed. CBP regulations allow the importer 90 days (or 180 days for entries on or after 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, 2012 and 2011 is as follows (in thousands):

2012	Aged Period					Total
	< or = 90 days	91 days -1 year	1-2 years	2-3 years	3+ years	
Reimbursable Services	\$ 532	\$ 1,595	\$ 914	\$ 110	\$ 1,053	\$ 4,204
User Fees	196,201	755	80	1,447	18,978	217,461
Gross Receivables	\$196,733	\$ 2,350	\$ 994	\$ 1,557	\$ 20,031	\$ 221,665
Less Uncollectible Amounts	--	--	77	601	18,807	19,485
<b>Net Receivables</b>	<b>\$ 196,733</b>	<b>\$ 2,350</b>	<b>\$ 917</b>	<b>\$ 956</b>	<b>\$ 1,224</b>	<b>\$ 202,180</b>

# Other Accompanying Information (Unaudited)

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

## Taxes, Duties, and Trade Receivables, Net

An analysis of the changes in accounts receivable during FY 2012 and 2011 is as follows (in thousands):

Receivable Category	2012					Balance September 30
	Balance October 1	Receivables Recorded During the Fiscal Year	Collections	Write-offs	Adjustments	
Duties	\$ 2,352,720	\$ 18,175,762	\$ (16,529,393)	\$ (4,975)	\$ (1,709,377)	\$ 2,284,737
Excise Taxes	164,325	869,796	(793,251)	--	(98,185)	142,685
Fees	148,479	2,066,555	(1,937,872)	--	(79,549)	197,613
Fines/ Penalties	437,141	795,557	(57,804)	(52,184)	(677,472)	445,238
Interest	453,070	120,385	(17,499)	(8)	(14,818)	541,130
Antidumping/ Countervailing Duty	885,087	515,730	(253,739)	(33)	22,908	1,169,953
Refunds/ Drawback	657	2,808	(1,960)	--	(43)	1,462
<b>Totals</b>	<b>\$ 4,441,479</b>	<b>\$ 22,546,593</b>	<b>\$ (19,591,518)</b>	<b>\$ (57,200)</b>	<b>\$ (2,556,536)</b>	<b>\$ 4,782,818</b>
Less: Uncollectible Amounts	1,709,714					2,082,353
<b>Net Receivables</b>	<b>\$ 2,731,765</b>					<b>\$ 2,700,465</b>

# Other Accompanying Information (Unaudited)

2011

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

An aging of accounts receivables as of September 30, 2012 and 2011 is as follows (in thousands):

2012	Aged Period					Total
	< or = 90 days	91 days – 1 year	1–2 years	2–3 years	3+ years	
Duties	\$ 2,132,980	\$ 10,990	\$ 8,370	\$ 44,184	\$ 88,214	\$ 2,284,738
Excise Taxes	133,617	83	45	2,009	6,931	142,685
User Fees	187,877	8,743	129	255	609	197,613
Fines/Penalties	81,914	73,239	66,057	42,535	181,493	445,238
Interest	87	25,870	55,890	68,606	390,677	541,130
Antidumping/ Countervailing Duty	--	179,314	211,519	245,164	533,956	1,169,953
Refunds and Drawback	--	476	78	--	907	1,461
Gross Receivables	\$ 2,536,475	\$ 298,715	\$ 342,088	\$ 402,753	\$ 1,202,787	\$ 4,782,818
Less: Uncollectible Amounts	75,837	271,812	315,225	376,021	1,043,458	2,082,353
<b>Net Receivables</b>	<b>\$ 2,460,638</b>	<b>\$ 26,903</b>	<b>\$ 26,863</b>	<b>\$ 26,732</b>	<b>\$ 159,329</b>	<b>\$ 2,700,465</b>

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

# Other Accompanying Information (Unaudited)

## CBP Collections by Category

(In thousands)

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Duties</b>					
Consumption Entries	\$ 27,543,807	\$ 22,759,054	\$ 25,312,699	\$ 29,522,341	\$ 30,860,080
Warehouse Withdrawals	76,910	61,638	54,214	41,907	38,676
Mail Entries	4,223	3,132	3,354	3,159	2,028
Passenger Baggage Entries	3,888	3,217	3,616	3,652	4,085
Crew Baggage Entries	8	5	9	6	5
Military Baggage Entries	1	2	2	3	5
Informal Entries	54,537	47,596	56,200	63,689	65,543
Vessel Repair Entries	43,315	39,240	21,521	30,381	16,710
Other Duties	41,277	33,237	9,747	8,359	18,868
<b>Total Duties</b>	<b>\$ 27,767,966</b>	<b>\$ 22,947,121</b>	<b>\$ 25,461,362</b>	<b>\$ 29,673,497</b>	<b>\$ 31,006,000</b>
<b>Miscellaneous</b>					
Violations of CBP Law	69,993	59,709	60,380	61,532	52,451
Testing, Inspecting & Grading	5,114	39	58	64	4,157
Miscellaneous Taxes	20,082	19,413	20,382	21,845	21,745
USDA Collections	112,319	110,425	120,637	120,704	131,680
Harbor Maintenance Fee	1,467,405	1,125,008	1,221,712	1,469,109	1,539,799
Fees	8,134	8,397	7,817	5,904	7,392
User Fee Account	2,633,600	2,258,027	2,440,275	2,779,483	3,439,523
Unclaimed Funds	372	276	188	164	469
Recoveries	9	7	--	--	--
Interest	23,987	30,623	13,555	35,577	40,173
Other CBP Receipts	15,325	22,331	15,329	13,838	22,412
<b>Total Miscellaneous</b>	<b>\$ 4,356,340</b>	<b>\$ 3,634,255</b>	<b>\$ 3,900,333</b>	<b>\$ 4,508,220</b>	<b>\$ 5,259,801</b>
<b>Internal Revenue Taxes</b>	<b>2,372,762</b>	<b>2,468,617</b>	<b>2,782,240</b>	<b>2,796,788</b>	<b>2,995,140</b>
<b>Total Collections</b>	<b>\$ 34,497,068</b>	<b>\$ 29,049,993</b>	<b>\$ 32,143,935</b>	<b>\$ 36,978,505</b>	<b>\$ 39,260,941</b>

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

# Other Accompanying Information (Unaudited)

## CBP Collections by Major Processing Port Locations

(In thousands)

	<b>2008</b> (Unaudited)	<b>2009</b> (Unaudited)	<b>2010</b> (Unaudited)	<b>2011</b> (Unaudited)	<b>2012</b> (Unaudited)
Boston	\$ 473,272	\$ 399,974	\$ 352,710	\$ 345,490	\$ 363,497
Buffalo-Niagara Falls	219,508	242,514	342,659	294,659	317,012
Ogdensburg	150,884	119,537	132,890	132,567	147,013
Portland, Maine	62,549	55,795	54,993	60,124	62,517
Providence	80,518	75,706	82,532	112,008	126,627
St. Albans	32,817	43,030	46,778	46,145	50,206
Baltimore	637,952	544,222	615,025	629,569	654,950
Philadelphia	588,607	456,252	422,253	448,508	461,559
Newark	4,642,846	4,036,961	4,347,759	5,025,814	5,219,277
JFK Airport	1,216,836	863,404	961,149	1,017,668	981,040
Charleston	1,002,353	820,601	858,098	1,043,719	1,184,188
Miami	634,894	520,283	600,506	771,770	803,266
San Juan	108,981	106,167	101,368	117,235	125,899
St. Thomas	17,145	15,301	16,720	14,948	12,550
Savannah	1,550,580	1,408,693	1,643,027	1,985,424	2,047,913
Tampa	516,533	358,532	425,038	447,629	492,541
Wilmington	328,933	267,905	294,996	304,612	266,326
Norfolk	709,807	634,642	604,357	704,551	736,196
NFC Indianapolis/Washington	1,941,618	1,107,891	1,418,106	1,650,976	1,870,288
Mobile	196,619	157,615	168,661	180,997	185,049
New Orleans	1,145,196	942,917	1,011,820	1,232,590	1,303,706
Dallas/Ft Worth	460,147	409,354	428,898	527,570	574,583
El Paso	173,202	140,143	139,378	144,829	152,491
Houston	909,631	764,115	735,314	919,704	1,116,282
Laredo	411,218	371,492	424,299	583,472	656,435
Port Arthur	33,725	33,665	28,584	30,079	20,869
Nogales	82,410	73,703	84,353	96,259	94,566
Los Angeles	8,387,589	7,468,426	8,565,244	9,715,689	10,268,894
San Diego	294,529	218,071	216,275	221,490	252,688
Anchorage	116,518	106,594	124,792	134,253	118,389
Honolulu	43,013	32,732	32,816	36,089	37,192
Portland	443,190	318,839	303,922	312,337	365,043
San Francisco	1,161,110	1,035,916	1,115,329	1,301,094	1,405,650
Seattle	1,264,836	1,122,774	1,145,325	1,307,307	1,354,234
Chicago	1,664,181	1,407,416	1,602,089	1,916,811	2,009,737
Cleveland	1,528,043	1,293,102	1,490,599	1,710,571	1,810,848
Detroit	563,036	446,972	528,280	625,148	677,489
Milwaukee	37,766	24,687	24,786	23,183	31,130
Minneapolis	198,610	170,645	187,866	244,880	265,195
Pembina	23,635	23,254	23,483	25,078	31,373
St. Louis	282,539	273,758	304,941	364,369	426,942
Great Falls	159,692	136,393	135,917	171,290	179,291
<b>Total Revenues Collected</b>	<b>\$ 34,497,068</b>	<b>\$ 29,049,993</b>	<b>\$ 32,143,935</b>	<b>\$ 36,978,505</b>	<b>\$ 39,260,941</b>

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

# Other Accompanying Information (Unaudited)

## Summary of Financial Statement Audit and Management Assurances

Table 1 and Table 2 below provide a summary of the financial statement and management assurances for FY 2012.

**Table 1: FY 2012 Summary of the Financial Statement Audit**

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

In FY 2012, the Independent Auditor's consolidated financial statement report identified one material weakness, Custodial Revenue and Drawback Controls, for CBP.

# Other Accompanying Information (Unaudited)

**Table 2: FY 2012 Summary of Management Assurances**

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

Effectiveness of Internal Controls Over Operations (FMFIA Section 2)						
Statement of Assurance	Qualified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
<b>Total Material Weaknesses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Conformance with Financial Management System Requirements (FMFIA Section 4)						
Statement of Assurance	Systems conform except for the below non-conformance(s)					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Financial Systems Security	1	0	0	0	0	1
Core Financial Systems	1	0	0	0	0	1
Information Technology Infrastructure	0	1	0	0	0	1
<b>Total Non-Conformances</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>

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

# Other Accompanying 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.

CBP identified and performed a risk assessment on all ten programs, three of which were identified as high risk. The Custodial CDSOA and Wool Manufacturers payment testing has not identified any improper payments in the past three years of testing. As a result OMB granted relief from testing this program until FY 2013. CBP performed sample payment testing on the remaining two high risk programs. The Custodial Refund and Drawback payment testing yielded an estimated improper payment amount of \$171 thousand of the \$1.3 billion, or less than 0.01 percent, disbursed during fiscal year 2011. The Border Security Fencing payment testing yielded an estimated improper payment amount of \$67 thousand of the \$197 million testing population, or 0.03 percent, disbursed during fiscal year 2011.

### Overpayments Recaptured Outside of Payment Recapture Audits

Agency Source	Amount Identified CY	Amount Recovered CY	Amount Identified PY	Amount Recovered PY	Cumulative Amount Identified (CY+PYs)	Cumulative Amount Recovered (CY+PYs)
IPIA Sampling	\$ 13,214	\$ 8,392	\$ 496	\$ 1,441	\$ 258,969**	\$ 254,147
Self-Reporting	\$ 205,854	\$ 165,750	\$ 112,381	\$ 112,381	\$ 380,299	\$ 340,195***
Public Reporting	\$ 88,425	\$ 88,425	\$ 990,276	\$ 990,276	\$ 1,344,931	\$ 1,344,931

\*\* Amount is reduced by \$2,104 from a PY that was deemed invalid

\*\*\* \$40,104 collected on 10/1/12

### Disposition of Recaptured Funds

Program or Activity	Type of Payment (Contract, Grant, Benefit, Loan, or Other)	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury
CBP Mission	Contract	\$ 0	\$ 2,098	\$ 0	\$ 6,294	\$ 0	\$ 0

### Payment Recapture Audit Targets

Program or Activity	Type of Payment (Contract, Grant, Benefit, Loan, or Other)	CY Amount Identified	CY Amount Recovered	CY Recovery Rate (Amount Recovered/ Amount Identified)	CY + 1 Recovery Rate Target	CY + 2 Recovery Rate Target	CY + 3 Recovery Rate Target
CBP Mission	Contract	\$ 13,214	\$ 8,392	64%	100%	100%	100%

# Other Accompanying Information (Unaudited)

## Aging of Outstanding Overpayments

Program or Activity	Type of Payment (Contract, Grant, Benefit, Loan, or Other)	CY Amount Outstanding (0–6 months)	CY Amount Outstanding (6 months to 1 year)	CY Amount Outstanding (over 1 year)
CBP Mission	Contract	\$ 44,926	\$ 0	\$ 0

CBP also identified amounts for recovery during the Improper Payment Information Act (IPIA) review of FY 2011 disbursements. The IPIA results are as follows (dollars in thousands):

	Amounts Identified as Improper Payments	Amounts Identified for Recovery	Amounts Recovered
Custodial Refund and Drawback	\$ 2,953	\$ 0	\$ 0
Border Security Fencing	\$ 15,273	\$ 0	\$ 0
<b>Totals</b>	<b>\$ 18,226</b>	<b>\$ 0</b>	<b>\$ 0</b>

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

## Improper Payment Reduction Outlook

(In millions)

Source of Recovery	Amount Identified (CY) (\$000)	Amount Recovered (CY) (\$000)	Amount Identified (PY) (\$000)	Amount Recovered (PY) (\$000)	Cumulative Amount Identified (CY+PYs) (\$000)	Cumulative Amount Recovered (CY+PYs) (\$000)
High-Dollar Overpayments Reporting	\$ 0.3	\$ 0.3	\$ 1.1	\$ 1.1	\$ 1.5	\$ 1.5
IPIA High-Risk Program Testing	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Post Payment Reviews	\$ > 0.1	\$ > 0.1	\$ > 0.1	\$ > 0.1	\$ 0.3	\$ 0.3
<b>CBP Totals</b>	<b>\$ 0.3</b>	<b>\$ 0.3</b>	<b>\$ 1.1</b>	<b>\$ 1.1</b>	<b>\$ 1.8</b>	<b>\$ 1.8</b>

# Other Accompanying Information (Unaudited)

## Payment Recapture Audit Reporting

CBP contracted the audit recovery work for disbursements made during FY 2011. The results of the recovery audit efforts continue to identify negligible recovery amounts. The recovery audit results are reported below:

Program or Activity	Type of Payment (Contract, Grant, Benefit, Loan, or Other)	Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported (CY)	Amounts Identified for Recovery (CY)	Amounts Recovered (CY)
CBP Mission	Contract	\$ 2,184,993,111	\$ 2,184,993,111	\$ 13,214	\$ 8,392
% of Amount Recovered out of Amount Identified (CY)	Amount Outstanding (CY)	% of Amount Outstanding out of Amount Identified (CY)	Amount Determined Not to be Collectable (CY)	% of Amount Determined Not to be Collectable out of Amount Identified (CY)	Amounts Identified for Recovery (PY)
64	\$ 4,822	36	\$ 0	0	\$ 247,859
Amounts Recovered (PY)	Cumulative Amounts Identified for Recovery (CY+PY)	Cumulative Amounts Recovered (CY+PY)	Cumulative Amounts Outstanding (CY+PY)	Cumulative Amounts Determined Not to be Collectable (CY+PY)	
\$ 245,755	\$ 258,969*	\$ 254,147	\$ 4,822	\$ 0	

\*Amount in column "Cumulative Amounts Identified for Recovery (CY+PY)" is reduced by \$2,104 from a PY that was deemed invalid

## Improper Payment (IP) Reduction Outlook

(In millions)

	2011	2011	2011	2012	2012	2012	2012	2012	2013	2013	2013	2014	2014	2014	2015	2015	2015
Program	PY Outlays	PY %	PY \$	CY Outlays	CY IP %	CY IP \$	CY Over-payment \$	CY Under-payment \$	CY + 1 est. Outlays	CY + 1 IP %	CY + 1 IP \$	CY + 2 est. Outlays	CY + 2 IP %	CY + 2 IP \$	CY + 3 est. Outlays	CY + 3 IP %	CY + 3 IP \$
Refund & Drawback	\$1,343	0.01	\$ .2	\$1,909	0.10	\$ 2	\$ 0	\$ 0	\$1,300	0.15	\$ 2	\$1,300	0.15	\$ 2	\$1,300	0.15	\$ 2
Border Security Fencing	\$197	0.03	\$ 0	\$173	0.03	\$ 0	\$ 0	\$ 0	\$159	0.03	\$ 0	\$157	0.03	\$ 0	un-available	--	--

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

# Other Accompanying Information (Unaudited)

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

The DHS OIG's report on Major Management Challenges Facing the Department of Homeland Security, OIG-13-09, dated November 14, 2012, and the agency's progress addressing these challenges are addressed at the DHS consolidated level and are incorporated into the DHS Fiscal Year 2012 **Annual Financial Report**, which can be found at: [www.dhs.gov/performance-accountability](http://www.dhs.gov/performance-accountability).

# Acronyms

ABTC	Agricultural/Biological Terrorism Countermeasures	CBP	U.S. Customs and Border Protection
ACAS	Air Cargo Advance Screening	CBSA	Canadian Border Services Agency
ACE	Automated Commercial Environment	CDS	Comprehensive Consequence Delivery System
ACS	Automated Commercial System	CDSOA	Continued Dumping and Subsidy Offset Act
ACTT	Alliance to Combat Transnational Threats	CEE	Centers of Excellence and Expertise
AD/CVD	Antidumping and Countervailing Duties	CFO	Chief Financial Officer
Ag-Bio	Agriculture Bioterrorism	CIA	Central Intelligence Agency
ALM	Active Lane Management	CLP	Carrier Liaison Program
AMOC	Air Marine Operations Center	COA	Certificates of Authorization
AMSCO	Analytical Management Systems Control Office	COAC	Commercial Operations Advisory Committee
APHIS	Animal and Plant Health Inspection Service	COBRA	Consolidated Omnibus Budget Reconciliation
APIS	Advance Passenger Information System	COS	Chief of Staff
ARO	Admissibility Review Office	COSS	Customs Overtime Scheduling System
ASO	Alien Smuggling Organizations	COTR	Contracting Officer Technical Representative
ATEP	Alien Transfer and Exit Program	CPSC	Consumer Product Safety Commission
ATS	Automated Targeting System	CSA	Canada Self-Assessment
ATSP	Automated Targeting System - Passenger	CSI	Container Security Initiative
BIC	Border Intelligence Centers	CSRS	Civil Service Retirement System
BSI	Border Security Initiative	CTAC	Commercial Targeting and Analysis Center
CAE	Component Acquisition Executive	C-TPAT	Customs-Trade Partnership Against Terrorism
CBIG	Caribbean Border Interagency Group	DCL	Dedicated Commuter Lane

# Acronyms

DCM	Drawback Compliance Measurement	FMFIA	Federal Managers' Financial Integrity Act
DCR	Diversity and Civil Rights	FOB	Forwarding Operating Bases
DEA	Drug Enforcement Administration	FPF	Fines, Penalties and Forfeitures
DHS	Department of Homeland Security	FPO	Fraud Prevention Officer
DIS	Digital Imaging System	FPP	Fraud Prevention Program
DOJ	Department of Justice	FSIS	Food Safety Inspection Service
DOL	Department of Labor	FY	Fiscal Year
DOS	Department of State	FYHSP	Future Year Homeland Security Program
eGIS	Enterprise Geospatial Information Services	GAAP	Generally Accepted Accounting Principles
ELMO	Enforcement Link Mobile Operations	GAO	Government Accountability Office
EPA	Environmental Protection Agency	GE	Global Entry
ERP	Enterprise Resource Planning	GOES	Global Online Enrollment System
ESTA	Electronic System for Travel Authorization	GOM	Government of Mexico
FASAB	Federal Accounting Standards Advisory Board	GPRA	Government Performance and Results Act
FAST	Free and Secure Trade	GPRMA	Government Performance and Results Modernization Act
FBI	Federal Bureau of Investigation	GSA	General Services Administration
FDAU	Fraudulent Document Analysis Unit	HRM	Human Resources Management
FECA	Federal Employees' Compensation Act	HSGP	Homeland Security Grant Program
FERS	Federal Employees' Retirement System	IA	Internal Affairs
FFMIA	Federal Financial Management Improvement Act	IAP	Immigration Advisory Program
FISMA	Federal Information Security Management Act of 2002	IBET	Integrated Border Enforcement Teams

# Acronyms

ICAD	Intelligence Computed Assisted Detection	MLU	Mexican Liaison Units
ICE	Immigration and Customs Enforcement	MPC	Mobile Processing Center
ICS	International Container Security	MRA	Mutual Recognition Arrangement
IDI	Injured Domestic Injuries	MSS	Mobile Surveillance System
ILU	International Liaison Unit	NAAP	National Annual Audit Plan
IMA	Integrated Mission Analysis	NCBFAA	National Customs Brokers and Forwarders Association of America
INTERPOL	International Criminal Police Organization	NCTC	National Counterterrorism Center
INA	Immigration and Nationality Act	NEI	National Export Initiative
IPR	Intellectual Property Rights	NARP	National Agriculture Release Program
IRS	Internal Revenue Service	NII	Non-Intrusive Inspection
ISA	Importer Self-Assessment	NMFS	National Marine Fisheries Service
ISA-PS	Importer Self-Assessment - Product Safety	NTCC	National Targeting Center - Cargo
ITDS	International Trade Data System	NTCP	National Targeting Center - Passenger
IUF	Immigration User Fees	OA	Office of Administration
IUFA	Immigration User Fee Account	OAM	Office of Air and Marine
IWS	Interoperability Web Service	OASISS	Operation Against Smugglers Initiative on Safety and Security
JOD	Joint Operations Directorate	OBP	Office of Border Patrol
JSP	Joint Security Program	OCA	Office of Congressional Affairs
JTT	Joint Targeting Teams	OCC	Office of Chief Counsel
LOB	Lines of Business	OES	Office of Executive Secretariat
MEA	Multi-role Enforcement Aircraft	OFO	Office of Field Operations
MID	Management Inspection Division	OGA	Other Government Agencies
		OIG	Office of Inspector General

# Acronyms

OIIL	Office of Intelligence and Investigative Liaison	PRD	Personal Radiation Detectors
OIT	Office of Information and Technology	PTI	Priority Trade Issues
OMB	Office of Management and Budget	QHSR	Quadrennial Homeland Security Review
OPA	Office of Public Affairs	RED	Re-Engineering Team
OPD	Office of Program Development	RFID	Radio Frequency Identification
OPP	Office of Policy and Planning	RIID	Radiation Isotope Identification Devices
OPSG	Operation Stonegarden	RPM	Radiation Portal Monitor
OSI	Office of Strategic Integration	RR	Rules and Regulations
OT	Office of International Trade	SAR	Search and Rescue
OTIA	Office of Technology Innovation and Acquisition	SBREFA	Small Business Regulatory Enforcement Fairness Act
OTD	Office of Training and Development	SENTRI	Secure Electronic Network for Traveler Rapid Inspection
OTM	Other Than Mexican	SF	Standard Form
OTR	Office of Trade Relations	SFFAS	Statement of Federal Financial Accounting Standards
PAP	Partnership Action Plan	SFI	Secure Freight Initiative
PAR	Performance and Accountability Report	SIP	Self-Inspection Program
PDN	Paso Del Norte	SLT	State, Local, and Tribal Office
PGA	Participating Government Agency	SOG	Special Operations Group
PMF	Performance Management Framework	SRT	Special Response Team
POE	Port of Entry	StAMP	Strategic Air and Marine Plan
PPAMH	Personal Property Asset Management Handbook	STB	Single Transaction Bond
PPBA	Planning, Programming, Budgeting, and Accounting	STC	South Texas Campaign
PPQ	Plant Protection and Quarantine	SWB	Southwest Border

# Acronyms

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TCM	Trade Compliance Measurement
TCO	Transnational Criminal Organization
TDY	Temporary Duty
TECS	The Enforcement Communication System
TPVT	Textile Production Verification Team
TSA	Transportation Security Agency
TSDB	Terrorist Screening Data Base
UAS	Unmanned Aircraft System
UGS	Underground Sensors
USBP	United States Border Patrol
USCG	U.S. Coast Guard
USDA	U.S. Department of Agriculture
VACIS	Vehicle and Cargo Inspection System
VWP	Visa Waiver Program
WHTI	Western Hemisphere Travel Initiative
WMD/Es	Weapons of Mass Destruction/Effects
XML	Extensible Markup Language



## U.S. Customs and Border Protection

Office of Administration  
1331 Pennsylvania Avenue  
Room 950, National Place  
Washington, DC 20229

Please visit the U.S. Customs and Border Protection web site at  
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