

**DEPARTMENT OF HOMELAND SECURITY**  
**Office of Inspector General**

**Independent Auditors' Report On  
CBP's FY 2005 Balance Sheet**



**(Excerpts from the CBP Performance  
and Accountability Report)**

**Office of Audits**

**OIG-06-12**

**December 2005**



**Homeland  
Security**

## Preface

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

The attached report presents the results of the audit of the Customs and Border Protection's (CBP) consolidated balance sheet as of September 30, 2005 and excerpts from CBP's *Performance and Accountability Report*. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audit. The contract required that KPMG perform its audit according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG issued an unqualified opinion on CBP's consolidated balance sheet for FY 2005. KPMG's report identified three material weaknesses related to drawback of duties, taxes and fees; information technology; and environmental cleanup costs; two additional reportable conditions related to entry process; and instances of non-compliance with three laws and regulations. KPMG is responsible for the attached auditor's report dated November 2, 2005, and the conclusions expressed in the report. We do not express opinions on CBP's consolidated balance sheet or internal control or conclusions on compliance with laws and regulations.

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

A handwritten signature in cursive script that reads "Richard L. Skinner".

Richard L. Skinner  
Inspector General

**U.S. DEPARTMENT OF HOMELAND SECURITY**

**Excerpts from CBP's FY 2005 Performance and Accountability Report**

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## Independent Auditors' Report

Inspector General  
U.S. Department of Homeland Security

Commissioner  
Customs and Border Protection:

We have audited the accompanying consolidated balance sheet of the U.S. Department of Homeland Security's (DHS) Bureau of Customs and Border Protection (CBP) as of September 30, 2005. The objective of our audit was to express an opinion on the fair presentation of the consolidated balance sheet. In connection with our audit, we also considered CBP's internal control over financial reporting and tested CBP's compliance with certain provisions of applicable laws, regulations, and contract agreements that could have a direct and material effect on the consolidated balance sheet.

### SUMMARY

As stated in our opinion on the consolidated balance sheet, we concluded that CBP's consolidated balance sheet as of September 30, 2005, is presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as reportable conditions:

1. Drawback of Duties, Taxes, and Fees
2. Information Technology
3. Environmental Cleanup Costs
4. Entry Process:
  - Compliance Measurement Program
  - Bonded Warehouse and Foreign Trade Zones

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



The results of our tests of compliance with certain provisions of laws, regulations, and contract agreements disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*:

- *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*
- *Federal Information Security Management Act (Electronic Government Act of 2002)*
- *Federal Financial Management Improvement Act of 1996 (FFMIA)*

The following sections discuss our opinion on CBP's consolidated balance sheet, as of September 30, 2005, our consideration of CBP's internal control over financial reporting, our tests of CBP's compliance with certain provisions of applicable laws, regulations, and contract agreements, and management's and our responsibilities.

## **OPINION ON THE FINANCIAL STATEMENTS**

We have audited the accompanying consolidated balance sheet of the Department of Homeland Security's (DHS) Bureau of Customs and Border Protection (CBP) as of September 30, 2005. In our opinion, the consolidated balance sheet referred to above presents fairly, in all material respects, the financial position of CBP as of September 30, 2005 in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis, Performance Sections, Required Supplementary Information, Required Supplementary Stewardship Information, and Other Accompanying Information is not a required part of the consolidated balance sheet, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements, Part A, Form and Content of the Performance and Accountability Report*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect CBP's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated balance sheet.

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

We noted certain matters, described in Exhibits I and II, involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the reportable conditions presented in Exhibit I are material weaknesses. Exhibit II presents the other reportable condition.



A summary of the status of prior year reportable conditions as reported in the DHS consolidated report in FY 2004 is included in Exhibit IV.

We also noted other matters involving internal control over financial reporting and its operations that we will report in the DHS Consolidated management letter.

\* \* \* \* \*

## **COMPLIANCE AND OTHER MATTERS**

Our tests of compliance with certain provisions of laws, regulations, and contract agreements, as described in the Responsibilities section of this report, exclusive of those referred to in the FFMIA, disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, and are described in Exhibit III.

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

### **Management's Response to Internal Control and Compliance Findings**

CBP management responses to our internal control and compliance findings are included after each comment in Exhibits I, II and III of our report.

## **RESPONSIBILITIES**

### ***Management's Responsibilities***

The *Government Management Reform Act of 1994* (GMRA), *Accountability of Tax Dollars Act of 2002*, and *Government Corporation Control Act* require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, CBP prepares and submits financial statements in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the consolidated balance sheet, including:

- Preparing the consolidated balance sheet in conformity with accounting principles generally accepted in the United States of America;
- Preparing the Management Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information;
- Establishing and maintaining internal controls over financial reporting; and
- Complying with laws, regulations, and contract agreements, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.



### *Auditors' Responsibilities*

Our responsibility is to express an opinion on CBP's consolidated balance sheet as of September 30, 2005 based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform our audit to obtain reasonable assurance about whether the consolidated balance sheet as of September 30, 2005, is 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 balance sheet;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated balance sheet presentation.

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered CBP's internal control over financial reporting by obtaining an understanding of CBP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated balance sheet. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on CBP's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, in our audit, we considered CBP's internal control over the Required Supplementary Stewardship Information by obtaining an understanding of CBP's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over the Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, in our audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis and Performance sections, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether CBP's consolidated balance sheet as of September 30, 2005 is free of material misstatements, we performed tests of CBP's compliance with certain provisions of laws, regulations, and contract agreements, noncompliance with which could have a direct and material effect on the determination of consolidated balance sheet amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions



referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and 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.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether CBP's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

#### **DISTRIBUTION**

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

*KPMG LLP*

November 2, 2005



**Material Weaknesses**

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

**Background:**

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

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

**Condition:**

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

- The Automated Commercial System (ACS) lacked automated controls to detect and prevent excessive drawback claims and payments, necessitating inefficient manual processes to compensate. ACS did not have the capability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries or export documentation upon which the drawback claim was based. For example, ACS did not contain electronic edit checks that would flag duplicate claims for export of the same merchandise;
- Drawback review policies did not require drawback specialists to review all related drawback claims against the underlying consumption entries to determine whether, in the aggregate, an excessive amount was claimed;
- CBP drawback review policy and procedures allowed drawback specialists, with supervisory approval, to judgmentally decrease the number of ACS consumption entries randomly selected for review, thus decreasing the review's effectiveness; and
- The initial period for document retention related to a drawback claim is only 3 years from the date of payment. However, there are several situations that could extend the life of the drawback claim well beyond those 3 years. Also, the policy language was ambiguous; "...three years from the date of payment..." left open to interpretation whether the three years began on the date of the accelerated payment (if any), or the payment at final liquidation (if any).

**Cause/Effect:**

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

**Criteria:**

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

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

**Recommendations:**

We recommend that CBP:

1. Implement effective internal controls over drawback claims as part of any new systems initiatives, including the ability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries and export documentation for which the drawback claim is based, and identify duplicate or excessive drawback claims;
2. Revise current policies and procedures to require drawback specialists to review a statistically valid sample of all prior related drawback claims against a sample of consumption entries to determine whether, in the aggregate, an excessive amount was claimed against the consumption entries;
3. Adopt a review methodology to allow a statistical projection for drawback testing; and
4. Lengthen the required document retention period for all supporting documentation so that it corresponds with the drawback claim life cycle.

**Management Response:**

CBP agrees that effective internal controls over drawback processing are necessary. To ensure that these controls are effective, CBP management has committed to the following:

1. Ensure that the Automated Commercial Environment (ACE) is built to allow for proper comparisons, verifications and tracking of drawback claim data. CBP understands the necessity for ACE to perform checks to ensure that duplicate claims for the same goods are not processed and the need for a link to export data.
2. Develop and begin implementation of a more statistically valid sampling methodology that will also allow for valid statistical projection of testing results. Implementation of the new sampling methodology began in July 2005.

In order to ensure that the new methodology is effective, CBP will monitor the implementation and progress of the new method for a one-year period. In July 2006, CBP will make a determination as to whether or not the new sampling methodology should be adopted. If the new methodology is approved, the Drawback Handbook will be updated to reflect the new sampling methodology.

3. CBP Management agrees that the document retention period for a filer to maintain supporting documentation on a drawback claim is too short when compared to the lifecycle of a drawback claim. However, this recommendation requires a statutory change to 19 U.S.C. 1508(c). CBP can recommend such a change to the drawback recordkeeping requirements; however, a statutory change requires Congressional action. CBP is currently working with the trade community to update the drawback statutory language and will seek the trade community's support to change the recordkeeping requirement. If the trade community is not supportive of the change to the recordkeeping requirements, it is unlikely that Congress will enact it.

**B. Information Technology**

**Background:**

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

**Condition:**

During FY 2005, CBP took corrective actions to address prior year IT control weaknesses. However, during FY 2005, we continued to find IT general and application control weaknesses at CBP. The most significant weaknesses from a financial statement audit perspective relate to information security. Collectively, the IT control weaknesses limit CBP's ability to ensure that critical financial and operational data is maintained in such a manner to ensure confidentiality, integrity, and availability. Because of the sensitive nature of the issues identified, we will issue a separate restricted distribution report to address those issues in detail.

**Criteria:**

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

**Recommendation:**

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

**Management Response:**

Due to the sensitive nature of the issues identified, responses will be included in a separate, restricted distribution report.

**C. Environmental Cleanup Costs**

**Background/Condition:**

CBP's environmental liabilities are created primarily from underground fuel storage tanks and firing ranges.

CBP had not determined the environmental liabilities to be recorded in the September 30, 2005 consolidated balance sheet until a review was performed in response to our audit inquiry. CBP's analysis resulted in an environmental liability of approximately \$43 million. We further noted that no single program existed to manage CBP's environmental liabilities calculation, resulting in the necessity for an ad hoc method to be implemented at year-end. In addition, we noted a lack of communication throughout the organization related to the requirements associated with environmental liabilities.

**Cause/Effect:**

CBP did not have policies and procedures in place that required an annual review to identify a comprehensive list of sites that require environmental remediation and cleanup. Without a clear understanding of the financial reporting requirements of environmental liabilities and an effective process in place to comply, the liability may be misstated.

**Criteria:**

FMFIA requires that “internal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General.” The Government Accountability Office’s (GAO’s) *Standards for Internal Control in the Federal Government* states that management is responsible for developing and documenting detailed policies, procedures, and practices that fit their agency’s operations.

Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment*, paragraph 85-86 defines environmental costs as those costs of removing, containing, and/or disposing of (1) hazardous waste from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E. Federal Accounting Standards Advisory Board Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, requires recognition of liabilities that are probable and measurable.

**Recommendations:**

We recommend that CBP:

1. Designate one central person or department to be responsible for management and reporting of environmental liabilities, e.g., identification, valuation, tracking, and financial statement reporting;
2. Improve the communication throughout CBP to ensure that a clear understanding of the financial reporting requirements exists;
3. Implement a process to ensure that all sites with potential environmental liabilities are identified and liabilities are properly estimated and recorded in the consolidated balance sheet, in accordance with generally accepted accounting principles;
4. Ensure that the liability is updated on a quarterly basis; and
5. Improve the traceability of the Environmental Liabilities Summary Sheet estimate to its supporting documentation.

**Management Response:**

Customs and Border Protection continues to refine its process to develop and compile known and probable environmental liabilities for inclusion on its financial statements. To enhance the program one office will be designated to manage the identification, validation, tracking and reporting of environmental liabilities. The office will develop appropriate procedures and instructions that implement a process to ensure that environmental liabilities are identified periodically for presentation in the annual financial statements and traceable to supporting documentation.

**Other Reportable Conditions****D. Entry Process****1. Compliance Measurement Program****Background:**

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

**Condition:**

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

- Implementation of CM examinations varied significantly, with port guidance being subject to interpretation. As such each port followed different procedures for performing a CM examination. In addition, officers have been given greater flexibility in conducting the physical examination;
- CBP established the positions of CM, SSXM, and ISDA coordinators. No specific training for these coordinator roles existed to assist these personnel in making appropriate interpretations concerning their roles and responsibilities;
- The National Analysis Specialist Division (NASD) port audits were not selected based on a risk assessment. The ports were selected based on other non-risk based criteria. We also noted that while the NASD prepared port audit results, they did not prepare an analysis and summary of the findings and an "impact" assessment on Trade Compliance. CBP did not have a policy requiring follow-up to check that the errors were corrected at the ports (if possible) or that training was given to ensure that the errors did not happen again. Additionally, the results of the port audits were not considered by CBP's statistician in the calculation of the "revenue gap";
- During the current fiscal year CBP lowered the CM sample size by 50 percent to redirect resources to border security. However, such a reduction in sample size could cause the "revenue gap" calculation to exceed an acceptable range of probable values; and
- CBP performs little review or analysis on the CM data to ensure that it was inputted correctly.

**Cause/Effect:**

CBP has been challenged to balance its commitment of limited resources to two important mission objectives – trade compliance, including the collection of taxes, duties and fees owed to the Federal government, and securing the U.S. borders from potential terrorist entry. While these mission objectives do overlap somewhat, there are differences in how resources are deployed. During fiscal year 2005, CBP reduced its sample size for its CM program by a factor of 50 percent, to devote more resources to border security. Further, CM program policies and procedures have not gone through a significant review and update in several years. Turnover and reassignment of personnel have caused the CM program knowledge base to go stale in some ports.

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

**Recommendations:**

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

- Establish minimum standards for CM examinations to ensure consistency in the performance of each random review;
- Conduct periodic training to ensure CM, SSXM, and ISDA coordinators understand their roles and responsibilities in the CM program;
- Formalize and implement effective procedures for the port audit process;
- Develop and implement additional procedures that will improve the precision of the revenue gap calculation; and
- Establish an effective means of communication between the Office of Field Operations and Office of Strategic Trade to ensure data quality issues are timely addressed.

**Management Response:**

1. When CM resumed in 2002, CBP Officers were given greater flexibility in conducting the physical exams. The purpose of the flexibility was to provide the frontline with the ability to address security issues should the need arise. CBP recognizes that this flexibility can result in inconsistencies in the performance of the exams. In recognition of this, CBP has developed guidelines for exam procedures. Training of CM coordinators, muster sheets for supervisors, and dissemination of the exam guidelines were all done prior to the implementation of the FY 06 CM plan.
2. All Directors of Field Operations have identified CM coordinators for their field offices. A two day training session was held September 20 and 21, 2005 to outline the new CM procedures and to highlight the roles and responsibilities of the CM coordinators. In addition, standard operating procedures have been developed and disseminated and CM coordinators will participate in monthly conference calls to address any CM related issues and to verify that CM coordinator information is current and accurate.
3. In FY 06, CBP will establish a risk-based approach to select ports for CM port audits. At the conclusion of the review, CBP will prepare an analysis and summary of the findings that quantify the affect on the revenue gap calculation. Recommendations for corrective actions will be tracked by the headquarters office to ensure deficiencies have been properly addressed.
4. In FY 05, the CM sample size was reduced from 60,000 to 30,000 exams to free up frontline resources during a time of heightened security. Although this action was necessary to fulfil an important security mission, CBP realizes that the lower sample size did make the revenue gap calculation less precise. In recognition of the need to generate a more accurate revenue gap calculation, the FY 06 CM plan will include a sample size of 70,000 entry lines. This will decrease the margin of error of the calculation. The reviews will be conducted by the Import Specialists since our analysis showed that the majority of the revenue-related discrepancies found in CM were discovered by an Import Specialist review.

5. CBP uses OST high level review, port audits, and local CM coordinator review to identify errors in CM data. To preserve the integrity of the CM data, errors can only be corrected by CM coordinators or authorized local port officials. For FY 06, CBP will establish a formal means to communicate and track all data errors associated with CM.

## 2. Bonded Warehouse and Foreign Trade Zones

### Background:

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

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

### Condition:

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

1. CBP lacked official guidance and proper training to address the monitoring of BWs and FTZs. For example, we identified incomplete risk assessments and spot checks of BWs and FTZs;
2. CBP had not implemented a CM program to measure the "revenue gap" and the related effectiveness of controls over trade compliance for BWs and FTZs; and
3. CBP did not perform an analysis of the BW and FTZ surveys.

### Criteria:

GAO's *Standards* state that: "Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives. They help ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results."

### Cause/Effect:

Policies and procedures have not been developed or implemented to reliably and accurately review and track the BWs and FTZs. Without an effective process to review the compliance of BW and FTZ, CBP cannot determine the loss of revenue associated with these facilities, and it is possible that some of the facilities were not accounted for and that others were counted twice.



**Recommendations:**

We recommend that CBP:

- Finalize and issue CBP policies and provide appropriate training regarding compliance reviews of BWs and FTZs. This policy should include a standard national checklist to help CBP officers perform thorough reviews and measure compliance rates and to document the reviews consistently. In addition, this policy should include specific corrective action plans, based on the inspection results;
- Implement a CM program that can assist in determining a loss of revenue calculation for BWs and FTZs; and
- Implement a quality assurance program over the compliance review program.

**Management Response:**

1. CBP will finalize and issue policies and provide appropriate training regarding compliance reviews. This policy will be implemented when the handbooks for CBW and FTZ compliance measurement are approved and distributed.
2. CBP agrees with the recommendation to implement a compliance measurement program that can assist in determining a loss of revenue calculation. This has been included in the CBP CM plan for FY 2006.
3. A qualitative review of the results of the CM for FY2006, which includes type 21 entries, will be conducted. Uniform spot checks will be implemented when the handbooks are issued as official policy and distributed to the field.

## Compliance with Laws and Regulations

(Findings A – C and D are presented in Exhibits I and II, respectively)

This section discusses issues related to noncompliance with laws and regulations that could have a material impact on CBP's financial statements.

### E. Federal Managers' Financial Integrity Act of 1982

OMB Circular A-123 requires agencies and Federal managers to (1) develop and implement management controls; (2) assess the adequacy of management controls; (3) identify needed improvements; (4) take corresponding corrective action; and (5) report annually on management controls (commonly known as management's FMFIA report). We noted that CBP management's FMFIA report did not contain all material weaknesses identified in its Performance Accountability Report. Specifically, CBP's FMFIA report did not identify environmental liabilities as a material weakness.

#### Recommendation:

We recommend that CBP improve its process to ensure compliance with FMFIA in FY 2006.

#### Management Response:

CBP Management concurs with the recommendation and is confident that the DHS wide implementation of requirements of the DHS Financial Accountability Act will greatly enhance the FMFIA process and result in compliance with FMFIA in FY 2006.

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

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

#### Recommendations:

Recommendations will be included in a separate, restricted distribution report.

#### Management Response:

Due to the sensitive nature of the issues identified, CBP management response to recommendations will be included in a separate limited use IT report.

**G. Federal Financial Management Improvement Act of 1996 (FFMIA)**

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

1. With respect to Federal financial management system requirements, CBP's inventory systems do not interface with its financial system, and significant accounts receivable were not processed through an automated interface;
2. With respect to the United States Government Standard General Ledger at the transaction level; manual calculations were required to arrive at period end Tax, Duties, and Trade accounts receivable and reimbursable revenue and the related accounts receivable and inventory were not recorded at the transaction level timely, as the transaction occurred, in the financial system; and
3. With respect to Federal accounting standards: The material weakness related to environmental liabilities in Exhibit I resulted in a non-compliance with Federal accounting standards. See Comment C – *Environmental Liabilities* in Exhibit I for more information.

**Recommendation:**

We recommend that CBP implement actions to comply with Federal financial management requirements of FFMIA.

**Management Response:**

CBP management concurs with this recommendation.



U.S. Customs and  
Border Protection

NOV 15 2009

TO: Inspector General  
Department of Homeland Security

FROM: Chief Financial Officer  
Customs and Border Protection

SUBJECT: Management Response – Independent Auditor's Report on U.S. Customs  
and Border Protection's (CBP) Fiscal Year 2005 Consolidated Balance  
Sheet

On behalf of CBP, I am responding to the Independent Auditor's Report on CBP's Fiscal Year 2005 Consolidated Balance Sheet included in our Fiscal Year 2005 Performance and Accountability Report.

We concur with the three material weaknesses as well as the two other reportable conditions, and three instances on non-compliance with laws and regulations contained in the auditor's report. Corrective action plans outlining our strategy to correct these conditions will be prepared and provided to the Office of Financial Management, U.S. Department of Homeland Security. Some of these conditions can take several years to correct. CBP will continue to focus on and strive to improve our efforts to address the conditions and non-compliance issues contained in the auditor's report.

I am confident that the professional, cooperative working relationship between our staffs will result in improvements and efficiencies in our respective reporting and auditing practices.

If you have any questions, please do not hesitate to call me at (202) 344-2300.

Thank you,

A handwritten signature in cursive script, reading "Richard L. Balaban".

Richard L. Balaban

# Consolidated Balance Sheet

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**Customs and Border Protection  
Consolidated Balance Sheet  
As of September 30, 2005  
(Dollars in Thousands)**

	<u>2005</u>
<b>ASSETS</b> (Note 2)	
<b>Intra-governmental Assets</b>	
Fund Balance with Treasury (Note 3)	\$ 8,545,942
Advances and Prepayments	62,514
Other Intra-governmental Assets	
Accounts Receivable (Note 4)	44,437
Receivables Due from Treasury—Refund and Drawback (Note 4)	143,848
<b>Total Intra-governmental Assets</b>	<u><b>8,796,741</b></u>
Accounts Receivable, Net (Note 4)	147,298
Tax, Duties and Trade Receivables, Net (Note 5)	1,400,073
Operating Materials and Supplies (Note 6)	53,749
Property, Plant and Equipment, Net (Note 8)	1,917,722
Other Assets (Note 9)	
Cash and Other Monetary Instruments	6,982
Advances and Prepayments	2,642
<b>TOTAL ASSETS</b>	<u><b>\$12,325, 207</b></u>
<b>LIABILITIES</b> (Note 10)	
<b>Intra-governmental Liabilities</b>	
Due to the Treasury General Fund	1,419,307
Accounts Payable	86,235
Other Intra-governmental Liabilities	
Accrued FECA Liability	160,280
Employer Benefits and Taxes	32,565
Advances from Others	4,045
<b>Total Intra-governmental Liabilities</b>	<u><b>1,702,432</b></u>
	<b>(Continued)</b>

# Consolidated Balance Sheet

**Customs and Border Protection  
Consolidated Balance Sheet (continued)  
As of September 30, 2005  
(Dollars in Thousands)**

	<b>2005</b>
Accounts Payable	\$ 300,096
Advances from Others (Note 11)	4,812,831
Accrued Payroll and Benefits (Note 12)	880,087
Other Liabilities	
Refunds Payable (Note 13)	118,469
Software License Agreements (Note 14)	74,855
Injured Domestic Industries (Note 15)	236,890
Environmental Liabilities (Note 16)	43,447
Probable Legal Contingent Liabilities (Note 16)	61,727
<b>TOTAL LIABILITIES</b>	<b><u>8,230,834</u></b>
<b>Commitment and Contingencies (Note 16)</b>	
<b>NET POSITION</b>	
Unexpended Appropriations	2,070,402
Cumulative Results of Operations	2,023,971
<b>TOTAL NET POSITION</b>	<b><u>4,094,373</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$12,325,207</u></b>

The accompanying notes are an integral part of these statements.

# Consolidated Balance Sheet

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## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

#### Reporting Entity

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

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

#### Basis of Accounting and Presentation

The consolidated balance sheet has been prepared from CBP accounting records in conformity with generally accepted accounting principles (GAAP). GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which was designated the official accounting standard-setting body of the Federal Government by the American Institute of Certified Public Accountants.

The consolidated balance sheet should be read with the realization that it is for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that payment of liabilities other than for contracts can be abrogated by the sovereign entity.

The CBP consolidated balance sheet is reported using the accrual basis of accounting. In accordance with OMB Circular A-136, intra-departmental transactions and balances have been eliminated from the consolidated balance sheet.

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

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

## **Advances and Prepayments**

Intra-governmental advances and prepayments consist of amounts paid to Federal agencies prior to CBP receipt of goods and services. Advances and prepayments to the public consist mostly of unliquidated antidumping/countervailing duties.

## **Accounts Receivable**

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

## **Receivable Due From Treasury**

The Receivable Due From Treasury represents amounts to be provided by Treasury to fund accrued liabilities.

## **Tax, Duties, and Trade Receivables**

Accounts receivable consist of duties, user fees, fines and penalties, refunds and drawback overpayments, and interest associated with import/export activity, which have been established as a specifically identifiable, legally enforceable claim and remain uncollected as of year-end. These receivables are net of amounts deemed uncollectible which were determined by considering the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity. CBP's accounting policy for non-entity receivables is described in more detail in Note 5, Tax, Duties, and Trade Receivables, Net.



# Consolidated Balance Sheet

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## **Operating Materials and Supplies**

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

## **Seized and Forfeited Property**

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

Forfeited property is property for which the title has passed to the U.S. Government. As noted above, non-prohibited forfeited property or currency becomes assets of the Treasury Forfeiture Fund. However, prohibited forfeited items, such as counterfeit goods, narcotics, or firearms, are held by CBP until disposed or destroyed. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*, analyses of changes in seized and forfeited property of prohibited items are disclosed in Note 7.

CBP will also take into custody, without risk or expense, merchandise termed "general order property" which for various reasons cannot legally enter into the commerce of the United States. CBP's sole responsibility for the general order property is to ensure the property does not enter the Nation's commerce. If general order property remains in CBP custody for a prescribed period of time, without payment of all estimated duties, storage and other charges, the property is considered unclaimed and abandoned and can be sold by CBP at public auction. Auction sales revenue in excess of charges associated with the sale or storage of the item is remitted to the Treasury General Fund. In some cases, CBP incurs charges prior to the sale and funds these costs from entity appropriations. Regulations permit CBP to offset these costs of sale before returning excess amounts to Treasury.

## **Property, Plant and Equipment**

CBP capitalized property, plant and equipment with an acquisition value of \$5,000 or greater and a useful life of 2 years or greater if acquired prior to October 1, 1995. Beginning October 1, 1995, CBP capitalizes property, plant and equipment with an acquisition value of \$50,000 or greater, and a useful life of 2 years or greater. The property, plant and equipment assets acquired by CBP from the former Immigration and Naturalization Service as part of the formation of the Department of Homeland Security were capitalized if the acquisition value was \$25,000 or greater. As of October 1, 2000, CBP implemented SFFAS No. 10, *Accounting for Internal Use Software*. SFFAS No. 10 requires the capitalization of all internal use software, including commercial off-the-shelf, contractor developed and internally developed software. As a result, CBP

began capitalizing costs associated with the development of internal use software. In addition, CBP implemented the SFFAS No. 10 recommendation to apply capital lease accounting concepts to software license fee agreements that give CBP the “right to use” the software. Prior to October 1, 2000, costs relating to the development of internal use software and “right to use” license agreements were expensed.

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

Depreciation and amortization are computed using the straight line method over the estimated useful lives of the assets ranging from 3 to 30 years for equipment and software, 2 to 30 years for leasehold improvements, and 6-40 years for buildings, structures and land improvements. Amortization of capitalized software begins on the date of acquisition if purchased or when the module or component has been successfully tested if contractor or internally developed.

### **Commercial/Travel Payable**

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

### **Other Non-Entity Items in CBP Custody**

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

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

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

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

Most CBP employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS). CBP contributes 8.5 percent of base pay for regular employees, and 9 percent for law enforcement agents. Employees hired after December 31, 1983 are automatically covered by the Federal Employees’ Retirement System (FERS) and Social Security. A primary feature of FERS is that it offers a savings plan to

# Consolidated Balance Sheet

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which CBP automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, CBP also contributes the employee's matching share for Social Security. For the FERS basic benefit, CBP contributes 11.2 percent of base pay for regular employees and 23.8 percent for law enforcement agents. The pay base for determining CBP contributions to CSRS and FERS for inspectors and canine officers includes regular pay and up to a maximum of \$17,500 in certain overtime earnings for FY 2005. CBP recognizes the full costs of its employees' pension benefits; however, the liability associated with these costs is recognized by the Office of Personnel Management (OPM).

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

A liability for other post-employment benefits, which includes all types of benefits to former or inactive (but not retired) employees, their beneficiaries, and covered dependents, is also recognized.

## **Workers' Compensation**

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

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

## **Unexpended Appropriations**

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

## **Cumulative Results of Operations**

Cumulative results of operations primarily represent the excess of user fee revenues over related expenses. It also reflects the net investment in property and equipment, and operating materials and supplies held for use, and transfers in of equipment, materials, and supplies from other Federal agencies without

# Consolidated Balance Sheet

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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.

## Use of Estimates

Management has made certain estimates and assumptions in the reporting of assets, liabilities, and note disclosures in the consolidated balance sheet and accompanying notes. Actual results could differ from these estimates. Significant estimates include: year-end accruals of accounts payable, contingent legal and environmental liabilities, accrued workers' compensation, allowance for doubtful accounts receivable, retirement and post-retirement benefits assumptions, and certain non-entity receivables and payables related to custodial activities.

## Taxes

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

## 2. Non-Entity Assets

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

	<u>2005</u>
Intra-governmental	
Fund Balance with Treasury	\$ 5,062,751
Receivables Due from Treasury (Note 4)	<u>143,848</u>
Total Intra-governmental	5,206,599
Public	
Cash and Other Monetary Instruments (Note 9)	6,350
Tax, Duties and Trade Receivables, Net (Note 5)	1,400,073
Property, Plant and Equipment, Net	<u>6,156</u>
Total Public	<u>1,412,579</u>
Total Non-Entity Assets	6,619,178
Total Entity Assets	<u>5,706,029</u>
<b>Total Assets</b>	<b><u>\$12,325,207</u></b>

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

# Consolidated Balance Sheet

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Non-entity Fund Balance with Treasury consists of special and deposit funds, permanent appropriations, and miscellaneous receipts that are available to pay non-entity liabilities. Non-entity receivables due from Treasury represent an estimate of duty, tax, and/or fee refunds and drawbacks that will be reimbursed by a permanent and indefinite appropriation account and will be used to pay estimated duty refunds and drawbacks payable of \$118.4 million as of September 30, 2005. Duties and taxes receivable from public represents amounts due from importers for goods and merchandise imported to the United States, and upon collection, will be available to pay the accrued intra-governmental liability due to the Treasury General Fund, which equaled \$1.4 billion as of September 30, 2005.

### 3. Fund Balance with Treasury

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

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

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

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

Special funds are receipt funds earmarked 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, 2005, CBP User Fees Account contained approximately \$740.5 million; CBP's services at Small Airports account contained approximately \$5 million; and the Refunds, Transfers and Expenses of Operation of Puerto Rico account contained approximately \$27.4 million. CBP also has entity special funds for immigration user fees of \$179 million as of September 30, 2005. Non-entity fund balance includes monies received in connection

## Consolidated Balance Sheet

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with antidumping/countervailing duty orders and findings to qualifying Injured Domestic Industries of \$316.4 million as of September 30, 2005.

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. Non-entity deposit fund represents collections that do not belong to the Federal Government and for which final disposition has not been determined at year-end, including \$4.6 billion of unliquidated antidumping/countervailing duties as of September 30, 2005.

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

<u>2005</u>	<u>Entity</u>	<u>Non-Entity</u>	<u>Totals</u>
Unobligated balance available	\$ 202,924	\$5,062,751	\$5,265,675
Unobligated balance unavailable	557,069	—	557,069
Obligated balance not yet disbursed	2,075,067	—	2,075,067
Restricted unobligated funds	648,131	—	648,131
<b>Totals</b>	<b><u>\$3,483,191</u></b>	<b><u>\$5,062,751</u></b>	<b><u>\$8,545,942</u></b>

Portions of the unobligated balance available, unobligated balance unavailable, and obligated balance not yet disbursed contains CBP's user fees account balance of \$640 million as of September 30, 2005, which is restricted by law in its use to offset specific costs incurred by CBP until made available as provided in Appropriation Acts.

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

The obligated balance not yet disbursed represents amounts designated for payment of goods or services ordered but not received or goods and services received but for which payment has not yet been made.

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

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

# Consolidated Balance Sheet

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## 4. Accounts Receivable

### Intra-governmental Accounts Receivable

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

### Accounts Receivable, Net

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

Title 19 of the United States Code, chapter 1, section 58c, authorizes CBP, formerly known as the United States Customs Service, to collect user fees for services provided in connection with the processing of commercial air and commercial vessel passengers and loaded or partially loaded railroad cars carrying passengers or commercial flights arriving into the customs territory as defined in general note 2 of the Harmonized Tariff Schedule of the United States (some exceptions apply).

Receivables accrue for commercial airline and commercial vessel fees on a quarterly basis and the payments are due to CBP before the date that is 31 days after the close of the calendar quarter in which the fees are collected. Railroad car fees accrue on a monthly basis and the payments are due to CBP on or before the date that is 60 days after the applicable month. As of September 30, 2005, the Customs user fee receivables totals \$69 million and are net of uncollectible amounts totaling \$3 million.

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

### Receivables Due from Treasury—Refund and Drawback

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

## 5. Tax, Duties, and Trade Receivables, Net

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

<u>Receivable Category</u>	<b>2005</b>		
	<u>Gross Receivable</u>	<u>Amounts Uncollectible</u>	<u>Total Net Receivables</u>
Duties	\$1,142,830	\$ (96,774)	\$1,046,056
Excise Taxes	87,925	(5,729)	82,196
User fees	84,533	(1,575)	82,958
Fines/penalties	1,033,688	(957,347)	76,341
Interest	120,983	(107,147)	13,836
Antidumping/ Countervailing Duties	240,494	(142,126)	98,368
Refunds and drawback	1,609	(1,291)	318
<b>Totals</b>	<b><u>\$2,712,062</u></b>	<b><u>\$(1,311,989)</u></b>	<b><u>\$1,400,073</u></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. In FY 2004, CBP began implementing periodic monthly payment that requires payment of estimated duties, taxes, and fees on the 15th day of the month following release. A receivable of \$1.2 billion was recorded for 721,470 entries for merchandise released into commerce on or before September 30, 2005, of which \$284 million related to importers using the periodic monthly payment. It is CBP policy to track and demand payment of unpaid estimated duties, taxes and fees receivable amounts by establishing a liquidated damage case which generally results in a fines and penalty type receivable.

A fine or penalty is established when a violation of import/export law is discovered. CBP assesses a liquidated damage or penalty for these cases to the maximum extent of the law. After receiving the notice of assessment the importer or surety has 60 days to either file a petition requesting a review of the assessment or make payment of the assessed amount. If a petition is received and CBP finds there are extenuating circumstances, such as an incorrect assessment, which warrants mitigation, relief is granted as prescribed by CBP mitigation guidelines and directives. Until this process has been completed, CBP records an allowance on fines and penalties of approximately 92.75 percent of the total assessment based on historical experience of fines and penalties mitigation and collection. Duties and taxes receivable are non-entity assets for which there is an offsetting liability due to the Treasury General Fund.



# Consolidated Balance Sheet

## 6. Operating Materials and Supplies

Operating Materials and Supplies consist of parts and materials held for future consumption to repair and maintain CBP aircraft and vessels used in enforcement activities.

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

	<b>2005</b>
Aircraft	\$49,658
Vessels	4,091
<b>Total</b>	<b>\$53,749</b>

## 7. Seized and Forfeited Property

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

### Analysis of Changes in Prohibited (Non-Valued) Seized Property

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

## Consolidated Balance Sheet

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### Analysis of Changes in Prohibited (Non-Valued) Forfeited Property

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

# Consolidated Balance Sheet

## 8. Property, Plant and Equipment, Net

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

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

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

# Consolidated Balance Sheet

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## 9. Other Assets

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

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

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

Advances and Prepayments with the public consist of employee travel and salary advances and prepaid rent.

## 10. Liabilities

Liabilities Not Covered by Budgetary Resources as of September 30, 2005, consisted of the following (in thousands):

	<u>2005</u>
Intra-governmental:	
Accrued FECA Liability	\$ 160,280
Total Intra-governmental	<u>160,280</u>
Public:	
Accrued Payroll and Benefits:	
Accrued Leave	206,593
Actuarial FECA Liability	536,241
Other:	
Environmental Cleanup Costs	43,447
Contingent Liability	61,727
Software License Agreements	<u>74,855</u>
Total Public	<u>922,863</u>
Total Liabilities Not Covered by Budgetary Resources	1,083,143
Total Liabilities Covered by Budgetary Resources or Non-Entity Assets	<u>7,147,691</u>
<b>Total Liabilities</b>	<b><u>\$8,230,834</u></b>

# Consolidated Balance Sheet

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

Substantially all of the duty, tax and fee revenues collected by CBP are remitted to various General Fund accounts maintained by Treasury. Treasury further distributes these revenues to other Federal agencies in accordance with various laws and regulations.

## 11. Advances from Others

Advances from others included \$4.8 billion of unliquidated antidumping/countervailing duties as of September 30, 2005.

## 12. Accrued Payroll and Benefits

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

	<u>2005</u>
Accrued Funded Payroll and Benefits	\$137,253
Accrued Unfunded Leave	206,593
Actuarial FECA Liability	536,241
<b>Total</b>	<b><u>\$880,087</u></b>

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

## 13. Refunds Payable

Refunds payable consists of amounts owed for refunds of duty and other trade related activity and drawback claims. These liabilities are principally funded from the Refunds and Drawback account. The September 30, 2005, accrued liability consists of the following (in thousands):

	<u>2005</u>
Refunds	\$ 91,659
Drawback claims	26,810
<b>Total</b>	<b><u>\$118,469</u></b>

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

# Consolidated Balance Sheet

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average was used to determine a ratio for estimating the receivable and payable to be recorded. Using this average, CBP has estimated \$9.2 million as of September 30, 2005, as a payable.

## 14. Leases

### Operating Leases

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

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

### Software License Agreements

CBP has a number of software license fee agreements primarily involving mainframe software licenses. The liabilities associated with these software license agreements are reflected on the accompanying balance sheet based upon the present value of the future minimum license agreement payments. As of September 30, 2005, the aggregate capitalized cost of the agreements still subject to lease is \$154.9 million. These agreements are included in the capitalized software.

Future minimum payments for cancelable commercial off-the-shelf license agreements and the present value of the minimum license agreement payments as of September 30, 2005, is as follows (in thousands):

<u>FY</u>	<u>2005</u>
2006	\$17,981
2007	17,981
2008	17,981
2009	17,981
2010	17,981
Beyond 2010	—
Total future minimum license	<u>89,905</u>
Less: Imputed interest	<u>(15,050)</u>
<b>Total net present value of software license agreements</b>	<b><u>\$74,855</u></b>

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

# Consolidated Balance Sheet

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## 15. Injured Domestic Industries

The Continued Dumping and Subsidy Offset Act of 2000, P.L. 106-387, Title X, enacted in FY 2001 calls for CBP to disburse monies received in connection with antidumping and countervailing (AD/CV) duty orders and findings to qualifying injured domestic industries. During FY 2005, CBP liquidated \$236.8 million in AD/CV duty and recorded the liability.

## 16. Commitments and Contingencies

### Environmental Liabilities

CBP is responsible to remediate its sites with environmental contamination. The major Federal laws covering environmental response, cleanup and monitoring are the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act and the Toxic Substances Control Act. The unrecognized amounts of environmental liabilities for assets that require the systematic recognition of the total estimated cleanup costs is applicable to PP&E placed in service after October 1, 1997. CBP's environmental cleanup liability as of September 30, 2005, was \$43.4 million. The liability consists of underground fuel storage tanks, occupied buildings containing friable asbestos material, and firing ranges. Cost estimates for environmental and disposal liabilities are subject to revision as a result of changes in technology and environmental laws and regulations.

At the request of CBP, the Federal Occupational Health Department conducted onsite assessments of CBP occupied facilities during FY 2002 and 2003 to determine and document where asbestos containing materials existed. While the data is still being consolidated and the report is being drafted, preliminary results indicate approximately 407 buildings contain friable asbestos, including ceiling tile, drywall and joint compound. The total impacted area containing the friable asbestos is approximately 2,045,743 square feet for an estimated liability cost of \$16.4 million. The estimated environmental liability cost was determined using a unit price of \$8 per square foot of impacted area based on GSA Contract #GS-07p-99-HHD-0014.

The Federal Occupational Health Department contracted with The Shipley Group to conduct Environmental Compliance Assessments of CBP owned facilities during FY 2005. As part of these assessments, underground storage tanks (UST) at all fuel-dispensing facilities were inspected and applicable records, including state registration records, were researched. While the report is still being drafted, data indicates CBP owns 25 UST's (one is in the process of being closed) at 11 locations, all meeting regulatory requirements and are equipped with leak detectors. The oldest tank was installed in 1988. The assessments also indicated regularly scheduled maintenance and calibrations have not been performed on the leak detection systems at some, but not all, locations. CBP is addressing this risk and will issue maintenance contracts in FY 2006 using the central Repair and Alteration Fund account.

In addition, there are six ongoing projects addressing tanks that leaked gasoline. The leaking tanks have been removed and remediation of the gasoline plumes is in process. The Corp of Engineers is overseeing the projects for CBP and estimates the project cost to be \$3.5 million. CBP provided \$2.3 million to date; there is a need for additional funding of \$1.2 million.

# Consolidated Balance Sheet

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The CBP owned and controlled ranges are outdoor ranges of earth berm construction. Lead is typically not harvested from these types of ranges while the range is active due to the lengthy disruption to operation period. Still because CBP will be responsible for remediation of the lead, should they close, CBP estimates an environmental liability cost using a Small Arms Firing Range Average Cost of \$220 thousand per range obtained by USCG. Therefore, the total estimated environmental liability for these CBP ranges is \$1.5 million.

CBP also has agreements for the use at 105 public, privately owned, and local law enforcement ranges. Five of these ranges are equipped with trapping mechanisms and the range owners periodically harvest the lead as part of their operational expenses. The remaining 100 range sites are earth berm construction. For these sites, CBP liabilities are shared with other users of the facilities. However, due to CBP proportionate usage of the range being different at each range, CBP used the full ownership cost of \$220 thousand to estimate CBP liability. Therefore, the estimated CBP environmental liability at these 100 ranges is \$22 million.

The contractors perform all O&M activities on vessels and aircrafts owned by the Air Marine Operations. The contract statements of work (SOW) for vessel and aircraft maintenance contain clauses on safety and hazardous waste management. The contractors are required to comply with the environmental requirements. The contractors are responsible for managing all hazardous waste generated in accordance with all local, state, DoD and federal requirements for the hazardous waste products. An Aviation Maintenance Officer (AMO) is assigned to each of our aviation branches, and the primary duty of that AMO is to oversee/monitor the contractor for compliance with SOW requirements. For the past year, AMO has seen no discrepancies that dealt with EPA compliance issues. CBP has no environmental liability at aircraft and vessel O&M facilities.

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

## **Legal Contingent Liabilities**

The estimated contingent liabilities recorded in the accompanying balance sheet for all probable and estimable litigation related claims as of September 30, 2005 was \$61.7 million. Asserted and pending legal claims for which loss is reasonably possible was estimated at \$317.3 million as of September 30, 2005.

CBP is party to various administrative proceedings, legal actions, and claims brought by or against it. Any financially unfavorable administrative or court decision will normally be funded from either: (1) CBP appropriation for refunds and drawback for trade litigation issues; (2) various claims and judgment funds maintained by Treasury; or (3) CBP salary and expense appropriation. It is the opinion of CBP management and legal counsel, that the ultimate resolution of these proceedings, legal actions, and claims will not materially affect the financial statements.



# Consolidated Balance Sheet

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## 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, 2005, have been recorded.

## Loaned Aircraft

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

## Other Contractual Arrangements

The Department is committed under contractual agreements for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all CBP activities amounts to \$2.5 billion in FY 2005.

## 17. Balance Sheet Analysis

Balance Sheet Analysis Note 17 (matching A-136)

	<u>2005</u>
<b>ASSETS</b>	
Fund Balance with Treasury	\$ 8,545,942
Accounts Receivable	44,437
Other Assets	250,799
<b>Total Intra-governmental</b>	<u>8,796,741</u>
Accounts Receivable, Net	147,298
Tax, Duties and Trade Receivables, Net	1,400,073
Operating Materials and Supplies	53,749
Property, Plant and Equipment, Net	1,917,722
Cash and Other Monetary Instruments	6,982
Other	9,624
	<u>3,528,466</u>
<b>TOTAL ASSETS</b>	<u><b>\$12,325,207</b></u>

# Consolidated Balance Sheet

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		<u>2005</u>
<b>LIABILITIES</b>		
Accounts Payable		86,235
Other	1,616,197	<u>1,616,197</u>
<b>Total Intra-governmental</b>		<b>1,702,432</b>
Accounts Payable		300,096
Federal Employee Benefits	880,087	
Environmental Liabilities	43,447	
Other	5,304,772	<u>6,228,306</u>
		6,528,402
<b>TOTAL LIABILITIES</b>		<b><u>8,230,834</u></b>
<b>NET POSITION</b>		
Unexpended Appropriations		2,070,402
Cumulative Results of Operations		<u>2,023,971</u>
<b>TOTAL NET POSITION</b>		<b>4,094,373</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>		<b><u>\$12,325,207</u></b>

# Consolidated Balance Sheet

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## Customs and Border Protection Required Supplementary Information (Unaudited)

### Deferred Maintenance

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

An assessment of Fair means the facility/equipment condition meets minimum standards but requires additional maintenance or repair to prevent further deterioration, increase operating efficiency and to achieve normal life expectancy. Deferred maintenance on property, plant and equipment as measured by a condition assessment survey, is comprised of (in thousands):

	2005	
	<u>Condition Assessment</u>	<u>Deferred Maintenance</u>
Building and Structures	Fair	\$1,660
Vehicles	Fair	4
Totals		<u>\$1,664</u>

**Customs and Border Protection**  
**Required Supplementary Stewardship Information**  
**(Unaudited)**

**Heritage Assets**

As of September 30, 2005, CBP maintains four multi-use heritage assets located in Puerto Rico valued at \$534 thousand. Heritage assets are property, plant and equipment that have historical or national significance, cultural, educational, or artistic importance, or significant architectural characteristics. Heritage assets are generally expected to be preserved indefinitely. All multi-use heritage assets are reflected on the consolidated balance sheet. Financial information for heritage assets and general PP&E is presented in the required supplementary information.

# Notes to Financial Statements

## Customs and Border Protection Other Accompanying Information (Unaudited)

### Petitioned and Protested Schedule

An analysis of the changes in petitioned and protested assessed amounts during FY 2005 is as follows (in thousands):

	2005					
	Balance October 1	Additional Assessments	Protest in Favor of Debtor	Net Reduction Administrative Process	Additional Receivable	Balance September 30
Duties	\$ 85,534	\$ 190,344	\$ (20,257)	\$(177,834)	\$ (17,597)	\$ 60,190
Taxes	7,091	836	(82)	(1,190)	(6,007)	648
Fees	312	1,193	(165)	(706)	(288)	346
Fines/Penalties	1,215,886	1,154,127	(336,709)	(178)	(571,988)	1,461,138
Interest	73,169	84,082	(3,120)	(32,384)	(26,529)	95,218
Antidumping/ Countervailing Duty	176,548	238,393	(6,588)	(42,180)	(137,873)	228,300
Refunds & Drawback	12,012	9,989	(3,558)	(5,486)	(3,369)	9,588
Totals	<u>\$1,570,552</u>	<u>\$1,678,964</u>	<u>\$(370,479)</u>	<u>\$(259,958)</u>	<u>\$(763,651)</u>	<u>\$1,855,428</u>

CBP reviews selected entry documentation to determine whether importer payment estimates of duties, taxes, and fees were accurate or whether additional supplemental amounts are owed and should be billed. CBP regulations allow the importer 90 days (or 180 days for entries on or after 12/18/04) from the bill date in which to file a protest to be reviewed by the Port Director and an application requesting further review of the protest by CBP Office of Regulations and Rulings challenging the assessment of supplemental duties, taxes, and fees. If the Port Director denies the protest and application for further review, the protestor has an additional 60 days from the denial date for a review of the application by the Commissioner of CBP. Consequently, CBP recognizes accounts receivables only when the protested period has elapsed or when a protest decision has been rendered in CBP favor.

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

# Consolidated Balance Sheet

## Customs and Border Protection Other Accompanying Information (continued) (Unaudited)

### Entity Receivables

An aging of entity receivables as of September 30, 2005, is as follows (in thousands):

2005	Aged Period					Total
	<=90 days	91 days-1 year	1-2 years	2-3 years	3+ years	
Reimbursable services	\$ 14,559	\$ 201	\$ 3,252	\$ 85	\$ 67	\$ 18,164
User fees	119,867	5,704	10,377	2,038	7,939	145,925
Gross receivables	134,426	5,905	13,629	2,123	8,006	164,089
Less uncollectible amounts	—	(809)	(6,836)	(1,490)	(7,656)	(16,791)
Net receivables	<u>\$134,426</u>	<u>\$5,096</u>	<u>\$ 6,793</u>	<u>\$ 633</u>	<u>\$ 350</u>	<u>\$147,298</u>

### Non-Entity Receivables

An analysis of the changes in accounts receivable during FY 2005 is as follows (in thousands):

2005						
Receivable Category	Balance October 1	Receivables Recorded During the Fiscal Year	Collections	Write-offs	Adjustments	Balance September 30
Duties	\$1,036,974	\$23,065,552	\$(22,709,339)	\$ (6,621)	\$ (243,736)	\$1,142,830
Excise Taxes	73,235	2,367,106	(2,339,249)	—	(13,167)	87,925
Fees	79,904	2,163,117	(2,147,055)	(3)	(11,430)	84,533
Fines/penalties	798,171	4,476,452	(54,539)	(120,546)	(4,065,850)	1,033,688
Interest	115,581	75,401	(31,155)	(2,427)	(36,417)	120,983
Antidumping/ Countervailing Duty	269,427	2,045,880	(1,906,123)	(4,803)	(163,887)	240,494
Refunds/drawback	526	8,864	(5,455)	—	(2,326)	1,609
Totals	<u>\$2,373,818</u>	<u>\$34,202,372</u>	<u>\$(29,192,915)</u>	<u>\$(134,400)</u>	<u>\$(4,536,813)</u>	<u>\$2,712,062</u>
Less uncollectible amounts	(1,088,121)					(1,311,989)
Net receivables	<u>\$1,285,697</u>					<u>\$1,400,073</u>

# Consolidated Balance Sheet

## Customs and Border Protection Other Accompanying Information (continued) (Unaudited)

An aging of non-entity Intra-governmental receivables as of September 30, 2005, is as follows (in thousands):

2005 (Audited)	Aged Period					Total
	<=90 days	91 days-1 year	1-2 years	2-3 years	3+ years	
Duties	\$1,025,720	\$ 11,245	\$ 5,945	\$ 46,857	\$ 53,063	\$ 1,142,830
Excise taxes	80,729	2,621	3,747	89	739	87,925
User fees	83,109	150	450	461	363	84,533
Fines/penalties	93,498	373,029	279,413	137,123	150,625	1,033,688
Interest	487	20,541	15,151	22,640	62,164	120,983
Antidumping/ Countervailing Duty	65,404	100,308	39,365	23,072	12,345	240,494
Refunds/drawback	4	1,545	11	8	41	1,609
Gross receivables	1,348,951	509,439	344,082	230,250	279,340	2,712,062
Less uncollectible amounts	(97,553)	(453,508)	(307,626)	(198,713)	(254,589)	(1,311,989)
Net receivables	<u>\$1,251,398</u>	<u>\$ 55,931</u>	<u>\$ 36,456</u>	<u>\$ 31,537</u>	<u>\$ 24,751</u>	<u>\$ 1,400,073</u>

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