

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

**Independent Auditors' Report On  
CBP's FY 2006 Consolidated  
Financial Statements**



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



Homeland  
Security

November 15, 2006

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 represents Financial Information excerpted from CBP's *Performance and Accountability Report* (PAR) and the results of the CBP consolidated balance sheet as of and for the year ending September 30, 2006 and 2005, and the related consolidated statement of net cost, changes in net position, financing, and custodial activity, and the combined statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the year ended September 30, 2006. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the 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 financial statements for FY 2006. KPMG's report identified two material weaknesses, two other reportable conditions, and instances of non-compliance with three laws and regulations. KPMG is responsible for the attached auditor's report dated November 15, 2006, and the conclusions expressed in the report. We do not express opinions on CBP's consolidated financial statements 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 the CBP FY 2006 Performance and Accountability Report  
Financial Section**

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# Homeland Security

November 15, 2006

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

FROM: *Richard L. Skinner*  
Richard L. Skinner  
Inspector General

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

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

## **Summary**

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

### **Reportable Conditions That Are Considered To Be Material Weaknesses**

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

### **Other Reportable Conditions**

- C. Financial Reporting
  - Property, Plant, and Equipment
  - Imputed Financing Costs
  - Financial Statement Presentation
- D. Entry Process
  - Compliance Measurement Program
  - Bonded Warehouse and Foreign Trade Zones
  - In-Bond Program

## **Non-Compliance with Laws and Regulations**

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

\* \* \* \* \*

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

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

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

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

Attachment



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

Inspector General  
U.S. Department of Homeland Security:

Commissioner  
Customs and Border Protection:

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

### SUMMARY

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

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

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

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

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



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

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

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

## **OPINION ON THE FINANCIAL STATEMENTS**

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CBP as of September 30, 2006 and 2005, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity for the year ended September 30, 2006, in conformity with U.S. generally accepted accounting principles.

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

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

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the FY 2006 Management Discussion and Analysis and Performance Section and Other Accompanying Information section on pages 5 to 52 and 107 to 112 are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued



by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect CBP's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

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

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

### **INTERNAL CONTROLS OVER PERFORMANCE MEASURES**

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

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

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

### **COMPLIANCE AND OTHER MATTERS**

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

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

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





\* \* \* \* \*

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

## RESPONSIBILITIES

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

Management is responsible for the consolidated financial statements, including:

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

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

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2006 and 2005 consolidated balance sheet and the related consolidated statement of net cost, changes in net position, financing, and custodial activity and the combined statement of budgetary resources for the year ended September 30, 2006 of CBP based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CBP's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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



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

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

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

As part of obtaining reasonable assurance about whether CBP's fiscal year 2006 consolidated financial statements are free of material misstatement, we performed tests of CBP's compliance with certain provisions of laws, regulations, and contract agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contract agreements applicable to CBP. However, providing an opinion on compliance with laws, regulations, and contract agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

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

#### **RESTRICTED USE**

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

**KPMG LLP**

November 15, 2006

**Material Weaknesses**

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

**Background:**

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

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

**Condition:**

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

- The Automated Commercial System (ACS) lacked automated controls to detect and prevent excessive drawback claims and payments, necessitating inefficient manual processes that do not effectively compensate for these automated controls. ACS did not have the capability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries or export documentation upon which the drawback claim was based. For example, ACS did not contain electronic edit checks that would flag duplicate claims for export of the same merchandise;
- In addition, we noted that ACS lacked controls to prevent overpayment of drawback claims at the summary line level that were subject to the new deem liquidation process put in place during FY 2006. Specifically, we noted approximately \$387K of overpayments. Also during FY 2006, we noted a claim that was disbursed via accelerated payment in a prior year that was subsequently paid again during FY 2006;
- Drawback review policies did not require drawback specialists to review all related drawback claims against the underlying consumption entries to determine whether, in the aggregate, an excessive amount was claimed. During FY 2006, CBP implemented a statistical sampling method related to underlying consumption entries. However, a review has not occurred to determine the effectiveness of the new sampling method. In addition, under the new methodology drawback specialists are not required to review all prior drawback claims against a selected import entry;

## EXHIBIT I

- CBP drawback review policy and procedures allowed drawback specialists, with supervisory approval, to judgmentally decrease the number of ACS selected underlying consumption entries randomly selected for review, thus decreasing the review's effectiveness; and
- The initial period for document retention related to a drawback claim is only 3 years from the date of payment. However, there are several situations that could extend the life of the drawback claim well beyond those 3 years. Also, the policy language was ambiguous; "...three years from the date of payment..." left open to interpretation whether the three years began on the date of the accelerated payment (if any), or the payment at final liquidation.

### Cause/Effect:

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

### Criteria:

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

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

### Recommendations:

We recommend that CBP:

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

## EXHIBIT I

2. Implement automated controls within ACS to prevent overpayment of a drawback claim that is subject to deem-liquidation as well as automated controls to prevent duplicate payments of refund claims;
3. Evaluate the effectiveness of the sampling methodology implemented in FY 2006 related to underlying consumption entries;
4. Eliminate the drawback specialists ability, with supervisory approval, to judgmentally decrease the number of ACS selected underlying consumption entries randomly selected for review, thereby reducing the effectiveness of the statistical sample; and
5. Continue to work with the U.S. Congress to lengthen the required document retention period for all supporting documentation so that it corresponds with the drawback claim life cycle.

### **B. Information Technology**

#### **Background:**

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

#### **Condition:**

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

#### **Criteria:**

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

## **EXHIBIT I**

### **Recommendation:**

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

## EXHIBIT II

### Other Reportable Conditions

#### C. Financial Reporting

##### 1. Property, Plant, and Equipment

###### Background:

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

The errors were noted in the following categories:

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

###### Condition:

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

###### Cause/Effect:

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

###### Criteria:

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

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

## EXHIBIT II

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

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

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

### **Recommendation:**

We recommend that CBP:

1. Develop and implement policies and procedures to monitor property, plant, and equipment balances throughout the year and identified errors should be researched and corrected in a timely manner;
2. CBP's "FY 2005 PPE Clean-Up Group" should make permanent the property, plant, and equipment review procedures developed in FY 2006 to detect and prevent errors in property, plant and equipment; and
3. Coordination should be stressed and documented among the responsible CBP offices.

## **2. Intra-Departmental Imputed Financing Costs**

### **Background:**

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

### **Condition:**

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

### **Cause/Effect:**

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



## EXHIBIT II

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

### Criteria:

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

### Recommendations:

We recommend that CBP:

1. Identify and maintain as current all activity with other DHS bureaus and determine if the items are recorded at full cost as required by SFFAS No. 4, interpretation No. 6;
2. Obtain through the Department the necessary documentation from the other DHS bureaus in order to determine the imputed financing and costs to be recorded for those services/goods not already recorded at full cost; and
3. Update at least twice a year, once at year-end, the imputed financing and costs associated with intra-DHS activity.

## 3. Financial Statement Presentation

### Background:

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

### Condition:

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

- CBP's consolidated balance sheet and related notes were not presented on a comparative basis.
- CBP's summary of significant accounting policies (note 1) did not include the following disclosures:
  1. Narrative discussion of the implementation of SFFAS No. 27, *Identifying and Reporting Earmarked Funds*;

## EXHIBIT II

2. Narrative discussion related to the adoption of new accounting standards (included in the "Basis of Accounting" section);
  3. Narrative discussion related to intra-CBP eliminations (included in the "Basis of Accounting" section); and
  4. Narrative discussion related to reclassifications.
- CBP's statement of net cost was not presented in accordance with OMB A-136, *Financial Reporting Requirements*.
  - CBP's earmarked funds note was missing the narrative discussion related to each fund required by SFFAS No. 27, paragraph 23.
  - CBP's notes did not include disclosures related to the Statement of Financing
  - Custodial revenue note was missing disclosures required by SFFAS No. 7, *Accounting for Revenue and other Financing Sources*. Specifically, CBP collects approximately \$2.3 billion in excise taxes. Per paragraph 65 of SFFAS No. 7, CBP's cash collections and refunds by tax year and type of tax should include cash collections and cash refunds for the reporting period and for sufficient prior periods to illustrate (1) the historical timing of tax collections and refunds, and (2) any material trends in collection and refund patterns. CBP's note only provided information related to refunds and not tax collections.
  - CBP's required supplementary information (RSI) did not include the combining Statement of Budgetary Resources (SBR) as required by OMB Circular No. A-136.

### Cause/Effect:

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

### Criteria:

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

Specifically, paragraph 65 requires the following disclosure:

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

## EXHIBIT II

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

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

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

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

### **Recommendation:**

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

**D. Entry Process**

**1. Compliance Measurement Program**

**Background:**

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

**Condition:**

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

- CM Coordinators' guidance related to sampling, review procedures, and documentation requirements is ineffective related to the monthly review of CM results completed by import specialists. During FY 2006, the Assistant Commissioner, Office of Field Operations issued a memorandum addressing changes to the Compliance Measurement (CM) program. The memorandum included an updated Appendix B listing the responsibilities of various personnel within the CM process. Section 2.6 states that "On a monthly basis, the CM Coordinator will randomly sample the CM reviews completed by Import Specialists to verify that the reviews have been done in accordance with the procedures set forth herein." However, there is a weakness in the guidance in that it does not provide the CM Coordinators with a sampling methodology, required review procedures, and related documentation requirements for the monthly review;
- Non-compliance with CM guidelines requiring periodic reviews at the port level. During FY 2006, we noted that six CM Coordinators were not performing the monthly reviews of CM reviews performed by the import specialists as required in the memorandum discussed above. At an additional six sites, there was no documentation to confirm performance of the monthly reviews. In addition, we noted that at three sites, the Compliance Review Tracking Quarterly (CRTQ) function was used to follow-up on Entry Summary CM selectivity hits; however, the CRTQ was not run weekly as required by Appendix B. During the review of entries identified on the various monitoring reports, KPMG noted that at eleven sites selected for testing were not inputting Import Specialist Discrepancy Adjustment (ISDA) remarks in compliance with Directives 3550-074A (dated May 14, 2004) and 3550-074B (dated September 15, 2006) and Appendix B. KPMG noted three different types of discrepancies from the guidelines noted above: ISDA remarks were input beyond the 120 day requirement at eleven ports, the compliance field was not marked at two ports, and the ISDA remarks did not provide sufficient detail at five ports;
- The National Analysis Specialist Division (NASD) port audits were no longer performed during FY 2006. In prior years, NASD performed port audits to identify errors during the performance of a CM review. In fiscal year 2005, KPMG recommended using a risk-based approach to select which ports to audit. In addition, we recommended compiling the results of the port audits to identify potential trends or weaknesses on a national level, and to calculate a revenue impact for the discrepancies noted. During FY 2006, CBP suspended the

## EXHIBIT II

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

- Untimely results of CM exams. The FY 2006 memorandum for CM changes noted in condition 1 above includes an adjustment extending the deadline for ISDA comments from the Import Specialists to 120 days. Due to the extension in imputing results, CBP is unable to analyze the results of CM exams in a timely manner; and
- CBP performs little review or analysis on the CM data to ensure that it was inputted correctly.

### **Cause/Effect:**

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

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

### **Recommendations:**

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

1. Provide additional detail in the guidelines, specifying the sample size, procedures to perform, and documentation requirements for the CM Coordinator’s review of Import Specialists’ review. The guidance should also readdress the timing requirements for the monitoring reports or data queries and documentation retention;
2. Conduct periodic training to ensure that all port personnel have comprehensive knowledge of the CM program requirements;
3. Re-formalize and implement effective procedures for the port audit process performed by NASD, or readdress the self-inspection program to provide a more comprehensive and in-depth review of port activity (similar to what was accomplished under the previously performed port audits), including ensuring that the port is performing the reviews accurately; and
4. Establish an effective means of communication between the Office of Field Operations and Office of Strategic Trade to ensure data quality issues are timely addressed.

## EXHIBIT II

### 2. Bonded Warehouse and Foreign Trade Zones

#### Background:

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

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

#### Condition:

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

- CBP lacked official policies and procedures for completing risk assessments and compliance reviews for the entire fiscal year (procedures formalized in March 2006) to address the monitoring of BWs and FTZs;
- Inconsistent procedures followed by the ports for completing the risk assessments and compliance reviews; and
- Annual surveys are completed by the ports and manually provided to Headquarters once a year. The HQ review of the manually provided surveys can take up to 6 months to compile and analyze.

#### Criteria:

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

#### Cause/Effect:

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

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

## EXHIBIT II

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

### Recommendations:

We recommend that CBP:

1. Ensure adequate communication of the ports requirements related to compliance reviews and provide effective training so that all responsible personnel are aware of and can consistently execute all of the requirements; and
2. Implement an electronic survey to be received and completed by the ports and sent back to HQs in order to ensure timely response and review by HQ personnel.

### 3. In-Bond Program

#### Background:

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

#### Condition:

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

- Inconsistent procedures followed by the ports for completing compliance reviews/audits of in-bond entries;
- Inconsistent review of required monthly reports related to in-bond activity at the ports;
- National policies or procedures do not exist to monitor the results of In-Bond audits; and
- CBP has not implemented a CMP to measure the revenue gap and effectiveness of controls over trade compliance related to the In-bond process.

#### Criteria:

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

## **EXHIBIT II**

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

### **Cause/Effect:**

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

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

### **Recommendations:**

We recommend that CBP:

1. Communicate to the ports the requirements for the in-bond program and provide adequate training for appropriate personnel to ensure that the requirements are carried out accurately;
2. Develop policies and procedures for the review of required monthly reports. The policies and procedures should state how often the monthly reports are to be reviewed and the exact procedures to follow when completing the review;
3. Maintain supporting documentation, such as the manifests, bill of ladings, or permits reviewed for all In-bond audits performed;
4. Implement a standard procedure to periodically compile the results of all In-bond audits performed during the year and develop an analysis function in order to evaluate importers’ compliance with regulations as well as the overall effectiveness of the In-bond audits at a national level; and
5. Consider the cost/effectiveness of implementing a CMP (revenue gap calculation) over In-Bond to assess the risk of revenue loss and violations of trade regulations by importers.



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

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

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

**Recommendations:**

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

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

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

Specifically, we noted the following weaknesses:

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

**Recommendation:**

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

**G. Improper Payments Information Act of 2002 (IPIA)**

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

**Recommendation:**

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

EXHIBIT IV

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

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



U.S. Customs and  
Border Protection

NOV 15 2006

TO: Inspector General  
Department of Homeland Security

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

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

On behalf of U.S. Customs and Border Protection (CBP), I am responding to the Independent Auditor's Report on CBP's Fiscal Year 2006 Financial Statements included in our Fiscal Year 2006 Performance and Accountability Report.

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

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

A handwritten signature in black ink, appearing to read "E. Schied", written over a horizontal line.

Eugene Schied

# Financial Statements

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

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

**(Continued)**

# Financial Statements

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

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

The accompanying notes are an integral part of these statements.

# Financial Statements

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

**2006**

**Office of Field Operations Border Security Inspections and Trade  
Facilitation at Ports of Entry**

Gross Cost (Note 16)	\$4,693,579
Less: Earned Revenue	<u>195,216</u>

**Net Program Costs** \$4,498,363

**Border Security and Control Between Ports of Entry**

Gross Cost (Note 16)	\$2,250,496
Less: Earned Revenue	<u>93,603</u>

**Net Program Costs** \$2,156,893

**Air and Marine Operations**

Gross Cost (Note 16)	\$ 350,887
Less: Earned Revenue	<u>14,594</u>

**Net Program Costs** \$ 336,293

**Net Cost of Operations (Note 17)** \$6,991,549

The accompanying notes are an integral part of these statements.



# Financial Statements

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

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

The accompanying notes are an integral part of these statements.

# Financial Statements

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

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

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

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

The accompanying notes are an integral part of these statements.

# Financial Statements

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

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

**(Continued)**

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

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

The accompanying notes are an integral part of these statements.

# Financial Statements

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

**2006**

**Revenue Activity:**

Sources of Cash Collections:

Duties	\$24,729,875
User Fees	1,241,961
Excise Taxes	2,426,725
Fines and Penalties	51,224
Interest	8,649
Miscellaneous	11,431

**Total Cash Collections**

28,469,865

Accrual Adjustments (+/-)

(5,371,096)

**Total Custodial Revenue**

\$23,098,769

**Transferred to Others:**

Treasury General Fund Accounts	\$27,137,083
U.S. Department of Agriculture	126,608
Other Federal Agencies	16,661
Government of Puerto Rico	14,424
Government of the U.S. Virgin Islands	6,435
Refunds and Drawbacks	1,160,051
Non-federal Other	8,603
Change in Amounts Yet to be Transferred	(5,371,096)

**Total Disposition of Custodial Revenue**

23,098,769

**Net Custodial Activity**

\$ —

The accompanying notes are an integral part of these statements.

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

#### Reporting Entity

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

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

#### Basis of Accounting and Presentation

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

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

These financial statements, with respect to the Consolidated Balance Sheet, the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position, are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. The Combined Statement of Budgetary Resources is reported using the budgetary basis of accounting. Budgetary accounting facilitates compliance with legal constraints and controls over the use

# Notes to Financial Statements

of federal funds. It generally differs from the accrual basis of accounting in that obligations are recognized when new orders are placed, contracts awarded and services received that will require payments during the same or future period. The Consolidated Statement of Financing reconciles differences between the budgetary and accrual bases of accounting. CBP non-entity revenue and refunds are reported on the Consolidated Statement of Custodial Activity using a modified cash basis. With this method, revenue from cash collections are reported separately from receivable accruals and cash disbursements are reported separately from payable accruals.

In accordance with OMB Circular A-136, intra-CBP transactions and balances have been eliminated from the Consolidated Balance Sheet, Consolidated Statement of Net Cost, and the Consolidated Statement of Changes in Net Position. As provided for by OMB Circular A-136, the Combined Statement of Budgetary Resources is presented on a combined basis, therefore, intra-CBP transactions and balances have not been eliminated from this statement. In accordance with OMB Circular A-136, intra-CBP transactions and balances have been eliminated from all the amounts on the Consolidated Statement of Financing, except for obligations incurred and spending authority from offsetting collections and adjustments, which are presented on a combined basis.

## Earmarked Funds

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

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

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

CBP has program management responsibility for the following earmarked funds:

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



## **Assets and Liabilities**

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

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

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

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

## **Advances and Prepayments**

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

## **Accounts Receivable**

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

## **Receivable Due From Treasury and Due to the Treasury General Fund**

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

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

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

# Notes to Financial Statements

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an analysis of aged receivable activity. CBP's accounting policy for non-entity receivables is described in more detail in Note 6, Tax, Duties and Trade Receivables, Net.

## **Operating Materials and Supplies**

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

## **Seized and Forfeited Property**

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

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

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

## **Property, Plant and Equipment**

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

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

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

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

### **Commercial/Travel Payable**

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

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

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

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

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

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

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

# Notes to Financial Statements

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

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

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

## **Workers' Compensation**

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

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

## **Unexpended Appropriations**

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

## **Cumulative Results of Operations**

Cumulative results of operations primarily represent the excess of user fee revenues over related expenses. It also reflects the net investment in property and equipment, operating materials and sup-

plies held for use, and transfers in of equipment, materials and supplies from other Federal agencies without reimbursement. Also, included as a reduction in cumulative results of operations, are liabilities incurred, which will require funding from future appropriations, such as accumulated annual and other leave earned but not taken, accrued workers' compensation and contingent liabilities. The portion of cumulative results of operations attributable to earmarked funds is shown separately on both the Statement of Changes in Net Position and the Balance Sheet. For additional information see Note 15, Earmarked Funds.

### **Revenue, Financing Sources and Expense Recognition**

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

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

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

- Duties: amounts collected on imported goods.
- User fees: amounts designed to maintain U.S. harbors, and to defray the cost of other miscellaneous service programs.
- Excise taxes: amounts collected on imported distilled spirits, wines and tobacco products, and other miscellaneous taxes collected on behalf of the Federal Government.
- Fines and penalties: amounts collected for violations of laws and regulations.
- Refunds: payments made to importers/exporters is primarily identified when the import entry is liquidated, a process in which CBP makes final determination of duties, taxes, fees and interest owed on the entry and compares it to the estimated amount previously determined and paid by the importer/broker. Interest is included in the refund generally for the period of time between when the estimated amounts were received from the importer/broker and the time the entry is liquidated. When

## Notes to Financial Statements

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a refund is identified prior to liquidation, the refund from this remittance is funded from the duty, tax or fee collections rather than from the Refunds and Drawback Account.

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

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

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

CBP will also take into custody, without risk or expense, merchandise termed "general order property", which for various reasons cannot be legally entered into the U.S. commerce. CBP sole responsibility for the general order property is to ensure it does not enter the commerce of the United States. If general order property remains in CBP custody for a prescribed period of time, without payment of all estimated duties, storage and other charges, it is considered unclaimed and abandoned and can be sold by CBP at public auction. Auction sales revenue in excess of charges associated with the sale or storage of the item is remitted to the Treasury General Fund. In some cases, CBP incurs charges prior to the sale and funds these costs from entity appropriations. Regulations permit CBP to offset these costs of sale before returning excess amounts to Treasury. Proceeds from the sale of general order property totaled \$9 million and \$7 million for the years ended September 30, 2006 and 2005, respectively. Excess amounts returned to the Treasury General Fund average \$1 million.

### Use of Estimates

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

### Taxes

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

## Reclassifications

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

## 2. Non-Entity Assets

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

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

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

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

# Notes to Financial Statements

## 3. Fund Balance with Treasury

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

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

  

<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>	<u>\$3,483,191</u>	<u>\$5,062,751</u>	<u>\$ 8,545,942</u>

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

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

Special funds are receipt funds used for specific purposes. Entity amounts comprising the special fund balances result from CBP authority to assess and collect passenger and conveyance-related user fees, CBP authority to assess and collect fees associated with services performed at certain small airports or other facilities, and CBP authority to retain amounts needed to offset costs associated with collecting duties, taxes, and fees for the Government of Puerto Rico. As of September 30, 2006 and 2005, CBP User Fees Account contained approximately \$761.1 million and \$740.5 million, respectively; CBP Services at Small Airports account contained approximately \$8 million and \$5 million, respectively; and the Refunds, Transfers and Expenses of Operation of Puerto Rico account contained approximately \$31.8 million and \$27.4 million respectively. CBP also has entity special funds for immigration user fees of \$192.8 million and \$179.4 million, land border inspection fees of \$6.2 million and \$8.4 million, and immigration enforcement account of \$1.1 million and \$7.8 million as of September 30, 2006 and 2005, respectively. Non-entity fund balance includes monies received in connection with antidumping and coun-



## Notes to Financial Statements

tervailing duty orders and findings to qualifying Injured Domestic Industries of \$566 million and \$316.4 million as of September 30, 2006 and 2005, respectively.

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

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

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

  

<b>2005</b>	<b>Entity</b>	<b>Non-Entity</b>	<b>Totals</b>
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>\$3,483,191</b>	<b>\$5,062,751</b>	<b>\$ 8,545,942</b>

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

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

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

## Notes to Financial Statements

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

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

### 4. Cash and Other Monetary Instruments

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

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

  

<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>\$632</b>	<b>\$6,350</b>	<b>\$6,982</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 represent instruments importers/brokers provide to CBP in lieu of obtaining surety bonds.

### 5. Accounts Receivable

#### Intra-governmental Accounts Receivable

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

## **Accounts Receivables, Net**

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

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

Receivables accrue for commercial airline and commercial vessel fees on a quarterly basis and the payments are due to CBP within thirty-one days after the close of the calendar quarter in which the fees are collected. Railroad car fees accrue on a monthly basis and the payments are due to CBP on or before the date that is 60 days after the applicable month. As of September 30, 2006 and 2005, the Customs user fee receivables total \$72 million and \$69 million, respectively, and are net of uncollectible amounts totaling \$2 million and \$3 million.

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

## **Receivables Due from Treasury – Refund and Drawback**

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

# Notes to Financial Statements

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

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

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

Receivable Category	2005		
	Gross Receivable	Amounts Uncollectible	Total Net Receivables
Duties	\$1,142,830	\$ (96,774)	\$1,046,056
Excise Taxes	87,925	(5,729)	82,196
User fees	84,533	(1,575)	82,958
Fines/penalties	1,033,688	(957,347)	76,341
Interest	120,983	(107,147)	13,836
Anti-Dumping/ Countervailing Duties	240,494	(142,126)	98,368
Refunds and drawback	1,609	(1,291)	318
<b>Totals</b>	<b>\$2,712,062</b>	<b>\$(1,311,989)</b>	<b>\$1,400,073</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 \$1.6 billion and \$1.2 billion was recorded for 844,069 entries and 721,470 entries for merchandise released into commerce on or before September 30, 2006 and 2005, respectively, of which \$769 million and \$284 million related to importers using the periodic monthly payment. There were an additional 4,541 entries and 4,370 entries for merchandise released into commerce on or before September 30, 2006 and 2005, respectively, for which a receivable amount could not be determined because the entry summary

documentation describing the type, quantity, and value of the merchandise had not been received from the importers. It is CBP policy to track and demand payment of unpaid estimated duties, taxes and fees receivable amounts by establishing a liquidated damage case which generally results in a fines and penalty type receivable.

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

## 7. Operating Materials and Supplies

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

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

	<b>2006</b>	<b>2005</b>
Aircraft	\$63,350	\$49,658
Vessels	3,816	4,091
<b>Totals</b>	<b>\$67,166</b>	<b>\$53,749</b>

# Notes to Financial Statements

## 8. Seized and Forfeited Property

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

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

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

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

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

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

## Notes to Financial Statements

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

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

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

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

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

# Notes to Financial Statements

## 9. Property, Plant and Equipment, Net

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

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



# Notes to Financial Statements

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

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

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

## 10. Accrued Payroll and Benefits

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

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

# Notes to Financial Statements

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

## 11. Environmental Liabilities

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

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

## 12. Other Liabilities

### Refunds Payable

Refunds Payable consists of amounts owed for refunds of duty and other trade related activity and drawback claims. These liabilities, all considered current year liabilities, are principally funded from the Refunds and Drawback account. The September 30, 2006 and 2005, accrued liability consists of the following (in thousands):

	<u>2006</u>	<u>2005</u>
Refunds	\$5,556,292	\$ 91,659
Drawback claims	37,042	26,810
<b>Total</b>	<u>\$5,593,334</u>	<u>\$118,469</u>

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

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

### **Advances from Others**

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

### **Injured Domestic Industries**

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

## **13. Leases**

### **Operating Leases**

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

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

### **Software License Agreements**

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

# Notes to Financial Statements

(in thousands:)

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

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

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

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

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

## 14. Contingent Liabilities and Other Commitments

### Legal Contingent Liabilities

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

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

## **Duty and Trade Refunds**

There are various other trade issues resolved by other Federal Agencies, such as the Department of Commerce, which may result in refunds of duties, taxes and fees from the Refunds and Drawback Account. Until such time as a decision is reached by the other Federal agencies, CBP does not have sufficient information to estimate a contingent liability amount. All known refunds as of September 30, 2006 and 2005 have been recorded.

## **Loaned Aircraft**

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

## **15. Earmarked Funds**

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

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

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

# Notes to Financial Statements

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

## Consolidated Omnibus Budget Reconciliation (COBRA), Appropriation 70X5695

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

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

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

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

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

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

### **Immigration User Fees, Appropriation 70X5087**

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

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

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

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

Also in Public Law 107-77, Congress amended section 286(e) of the INA to authorize the Attorney General to charge and collect a user fee from certain previously exempt commercial vessel passengers. Prior to the enactment of this law, commercial vessel passengers whose journeys originated in Canada, Mex-

## Notes to Financial Statements

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ico, a State, territory or possession of the United States, or an adjacent island, were statutorily exempt from paying the Immigration User Fee prescribed by section 286(d) of the INA. While these vessel passengers were exempt from paying the fee, the [INS] Service was still required to provide inspection services. This exemption resulted in the [INS] Service inability to invest in necessary staffing and technology resources.

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

In FY 2003 with the formation of the Department of Homeland Security, legacy INS border functions transferred to CBP, while its interior enforcement activities fell to Immigration and Customs Enforcement (ICE). CBP collects the fees and shares the revenue from the immigration user fees based on a memorandum of understanding between CBP and ICE. CBP maintains 82.63% of the user fee, while 17.37% is provided to ICE. CBP retains 100% of the administrative carrier fines collected.

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

### **16. Intra-governmental Costs and Exchange Revenue**

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

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



## Notes to Financial Statements

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

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

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

# Notes to Financial Statements

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

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

Notes to Schedule:

**Note a:**

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

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

Air Traffic Security Cost

Travel Facilitation

Seaport Security Cost

Trade Rules Compliance

**Note b:**

Enforcement

- Patrol
- Transportation

Development and Implementation of the Secure Border Initiative

**Note c:**

Interdiction

General Investigative Activities

- Intelligence
- Smuggling

## 18. Net Position

Non-exchange Revenue represents amounts collected from user fees that CBP may retain and expend as authorized by law. Transfers In/Out Without Reimbursement are amounts of funds collected and transferred from CBP receipt accounts to expenditure accounts within CBP and to other Federal agencies. The amount reported as Other is the net effect of CBP's revaluation of property, plant and equipment.

## 19. Apportionment Categories of Obligations Incurred

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

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

## 20. Borrowing Authority

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

## 21. Permanent Indefinite Appropriations

Permanent indefinite appropriations refer to the appropriations that result from permanent public laws, which authorize CBP to retain certain receipts. The amount appropriated depends upon the amount of the receipts rather than on a specific amount. CBP has a permanent and indefinite appropriation, which

## Notes to Financial Statements

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is used to disburse tax and duty refunds and duty drawbacks. Although funded through appropriations, refund and drawback activity is, in most instances, reported as a custodial activity. Refunds are custodial revenue-related activity in that refunds are a direct result of importer overpayments of their duties, taxes and fees. Federal tax revenue received from taxpayers is not available for use in the operation of CBP and is not reported on the Consolidated Statement of Net Cost. Likewise, the refunds of overpayments are not available for use by CBP in its operations. Refunds and drawback disbursements totaled \$1.16 billion for fiscal year ended September 30, 2006, and are presented as a use of custodial revenue on the Consolidated Statement of Custodial Activity.

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

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

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

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

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

### **23. Explanation of Differences Between the SBR and the Budget of the US Government**

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

## Notes to Financial Statements

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

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

### 24. Undelivered Orders at the end of Period

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

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

### 25. Statement of Budgetary Resources (SBR)

The total Budgetary Resources of \$12.6 billion for FY 2006 includes new budget authority, unobligated balances at the beginning of the year and transferred in/out, spending authority from offsetting collections, recoveries of prior year obligations and adjustments.

## Notes to Financial Statements

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

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

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

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

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

### 27. Custodial Revenues

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

# Notes to Financial Statements

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

	<u>2006</u>
Refunds	\$ 646,035
Drawback	514,016
<b>Total</b>	<u>\$1,160,051</u>

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

<b>Entry Year</b>	
2006	\$ 596,166
2005	142,713
2004	89,827
2003	38,827
Prior Years	292,518
<b>Total</b>	<u>\$1,160,051</u>

The total amounts of antidumping and countervailing duties vary from year to year, depending on decisions from Department of Commerce. Antidumping and countervailing duty refunds (included in total refunds presented above) and associated interest refunded for the fiscal year ended September 30, 2006, consisted of the following (in thousands):

	<u>2006</u>
Antidumping and countervailing duty refunds	\$381,406
Interest	85,613
<b>Total</b>	<u>\$467,019</u>

## 28. Statement of Financing

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

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

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

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

# Required Supplementary Information

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

### Stewardship PP&E

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

### Deferred Maintenance

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

An assessment of Fair means the facility/equipment condition meets minimum standards but requires additional maintenance or repair to prevent further deterioration, increase operating efficiency and to achieve normal life expectancy. An assessment of Good means the facility/equipment condition is above minimum standards, but requires preventative maintenance or normal repairs to maintain the design intent of the building or equipment so that it continues to provide acceptable service and achieves the expected useful life. Deferred maintenance on property, plant and equipment as measured by condition assessment survey, is comprised of (in thousands):

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

### Custodial Activity

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



# Required Supplementary Information

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

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

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

As of September 30, 2006 (in thousands):

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

# Required Supplementary Information

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

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

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

# Other Accompanying Information

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

### Revenue Gap

The Compliance Measurement Program collects objective statistical data to determine the compliance level of commercial imports with U.S. trade laws, regulations and agreements, and it estimates the revenue gap. The revenue gap is a calculated estimate that measures potential loss of revenue owing to noncompliance with trade laws, regulations, and agreements using a statistically valid sample of the revenue losses and overpayments detected during Compliance Measurement entry summary reviews conducted throughout the year. For FY 2005, the actual revenue gap was \$470 million. CBP has calculated the preliminary FY 2006 revenue gap to be \$314 million. The projected over-collection and under-collection amounts due to noncompliance were \$128 million and \$442 million in FY2006, respectively. The preliminary overall trade compliance rate for FY 2006 is 96.6 percent. With overall compliance at a high level, CBP has been able to emphasize matters of significant trade risk.

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

### Petitioned and Protested Schedule

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

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

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

## Other Accompanying Information

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

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

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

### Entity Receivables

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

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

# Other Accompanying Information

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

### Non-Entity Receivables

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

Receivable Category	2006					Balance September 30
	Balance October 1	Receivables Recorded During the Fiscal Year	Collections	Write-offs	Adjustments	
Duties	\$ 1,142,830	\$24,784,777	\$(24,097,216)	\$ (1,065)	\$ (275,612)	\$ 1,553,714
Excise Taxes	87,925	2,796,560	(2,788,384)	(314)	3,391	99,178
Fees	84,533	2,413,366	(2,357,234)	(5)	(20,619)	120,041
Fines/penalties	1,033,688	1,932,068	(56,510)	(189,253)	(1,599,224)	1,120,769
Interest	120,983	91,512	(34,289)	(4,128)	(9,489)	164,589
Antidumping/ Countervailing Duty	240,494	1,465,289	(1,343,339)	(8,910)	(92,605)	260,929
Refunds/drawback	1,609	22,935	(20,285)	(18)	(2,164)	2,077
<b>Totals</b>	<b>\$ 2,712,062</b>	<b>\$33,506,507</b>	<b>\$(30,697,257)</b>	<b>\$(203,693)</b>	<b>\$(1,996,322)</b>	<b>\$ 3,321,297</b>
Less uncollectible amounts	(1,311,989)					(1,566,675)
<b>Net receivables</b>	<b>\$ 1,400,073</b>					<b>\$ 1,754,622</b>

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

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

# Other Accompanying Information

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

### CBP Collections by Category

(Dollars in thousands)

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

## Other Accompanying Information

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

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

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

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

#### CBP Collections by Major Processing Port Locations

(Dollars in thousands)

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

## Other Accompanying Information

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

**CBP Collections by Major Processing Port Locations (continued)**

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

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



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