Homeland Security

FY 2021
Agency Financial Report

With honor and integrity, we will safeguard the American people, our homeland, and our values.

DHS rose from the ashes of the tragic events of September 11th, 2001, to safeguard the American people, our homeland, and our values. As we observe the 20th anniversary of 9/11, we honor the victims who perished that day.

We Will Never Forget

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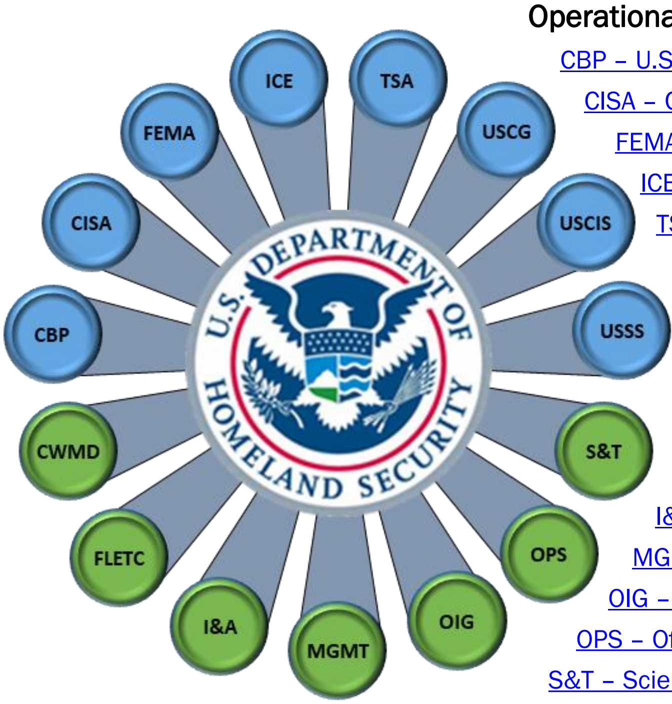
Connect with DHS

DHS Components

DHS's Operational Components (shaded in blue) lead the Department's operational activities to protect our Nation. The DHS Support Components (shaded in green) provide mission support and business support activities to ensure the operational organizations have what they need to accomplish the DHS mission. Click on the Component links to find out more about DHS and the Components that execute and support the mission. For the most up to date information on the Department's structure and leadership, visit our website at http://www.dhs.gov/organization.



Operational Components

- CBP – U.S. Customs and Border Protection
- CISA – Cybersecurity and Infrastructure Security Agency
- FEMA – Federal Emergency Management Agency
- ICE – U.S. Immigration and Customs Enforcement
- TSA – Transportation Security Administration
- USCG – U.S. Coast Guard
- USCIS – U.S. Citizenship and Immigration Services
- USSS – U.S. Secret Service

Support Components

- CWMD – Countering Weapons of Mass Destruction Office
- FLETC – Federal Law Enforcement Training Centers
- I&A – Office of Intelligence and Analysis
- MGMT - Management Directorate
- OIG – Office of Inspector General
- OPS – Office of Operations Coordination
- S&T – Science and Technology Directorate

DHS has multiple social media platforms that allow citizens to keep informed about homeland security issues and activities the Department is taking to make America safe.

- https://www.dhs.gov/facebook
- https://www.dhs.gov/twitter
- https://www.dhs.gov/instagram
- https://www.dhs.gov/linkedin
- https://www.dhs.gov/flickr
- https://www.dhs.gov/youtube
- https://public.govdelivery.com/accounts/USDHS/subscriber/new

For more information, please scan the QR code and visit DHS.gov

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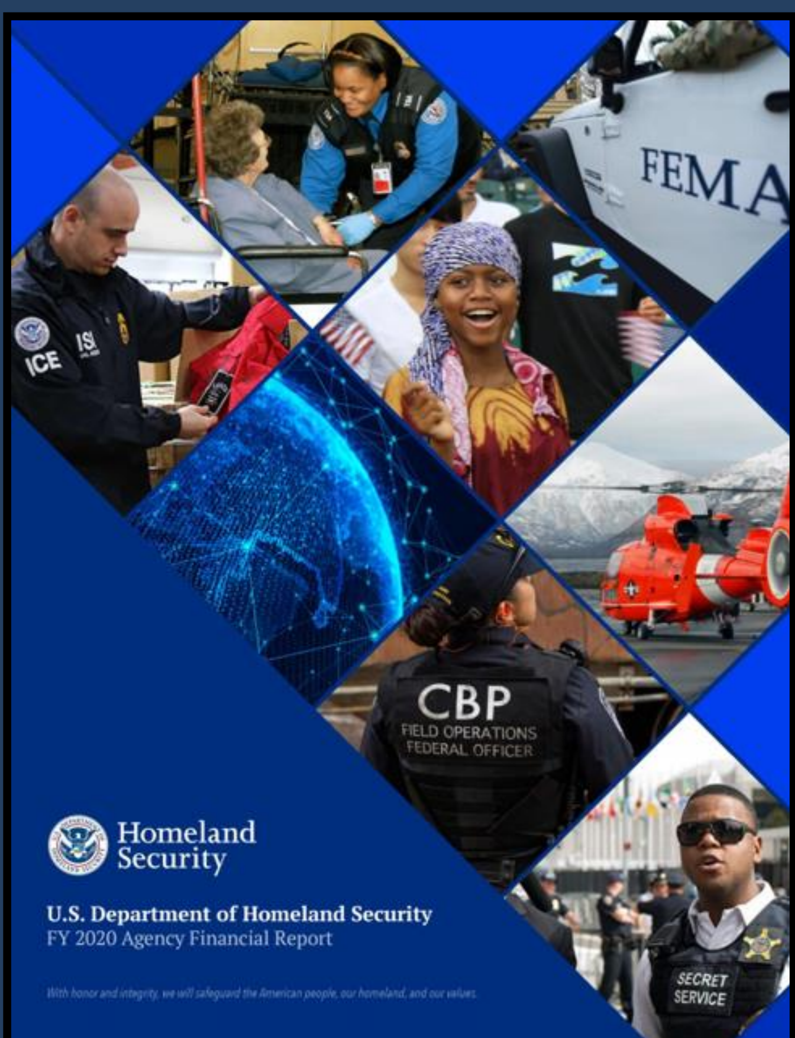
Certificate of Excellence in Accountability Reporting

In May 2021, DHS received its eighth consecutive Certificate of Excellence in Accountability Reporting (CEAR) from the Association of Government Accountants (AGA) for its Fiscal Year (FY) 2020 Agency Financial Report. The CEAR Program was established by the AGA, in conjunction with the Chief Financial Officers Council and the Office of Management and Budget, to further performance and accountability reporting.

In addition to the coveted CEAR award, DHS was presented with a Best-in-Class Award for Excellent Presentation of Performance Results in an Agency Financial Report. This is the second time DHS has been awarded this Best-in-Class Award.

AGA is an association for professionals that work in the areas of financial management, accounting, auditing, IT, budgeting, policy, grants management, performance management, and other business operations areas to help government work more efficiently and effectively.



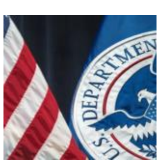
About this Report

The Department of Homeland Security (DHS) Agency Financial Report for FY 2021 presents the Department's detailed financial information relative to our mission and the stewardship of those resources entrusted to us. It also highlights the Department's priorities, strengths, and challenges in implementing programs to enhance the safety and security of our Nation. For FY 2021, the Department's Performance and Accountability Reports consist of the following three reports:

- DHS Agency Financial Report | Publication date: November 12, 2021.
- DHS Annual Performance Report | Publication date: February 7, 2022. The DHS Annual Performance Report is submitted with the Department's Congressional Budget Justification.
- DHS Report to our Citizens (Summary of Performance and Financial Information) | Publication date: February 15, 2022.

When published, all three reports will be located on our website at: http://www.dhs.gov/performance-accountability.

Table of Contents



This report is available at: http://www.dhs.gov/performance-accountability.

Message from the Secretary

November 12, 2021

I am pleased to present the Department of Homeland Security's (DHS) Agency Financial Report for Fiscal Year 2021. This report provides a detailed assessment of the Department's financial status and demonstrates how the resources entrusted to us were used to support our homeland security mission.

Our mission statement - *with honor and integrity, we will safeguard the American people, our homeland, and our values* - is a constant reminder of our call to service. This year, we commemorated the 20th anniversary of the 9/11 terrorist attacks and remembered the victims, their families, and the heroes of that tragic day, some of whom made the ultimate sacrifice to save others. From the first responders who quickly organized rescue operations at Ground Zero, to local citizens banding together to provide relief, America unified in response to the attack that had tried to tear it apart.

Today, our Nation faces a range of diverse threats and challenges, and the Department is addressing them head on. DHS plays a leading role in battling the pandemic, securing the border and implementing our immigration laws, strengthening the Nation's cybersecurity, preventing violent acts of domestic extremism, building greater resilience and preparedness as the effects of climate change prove increasingly dramatic, welcoming our Afghan allies through our role as Lead Federal Agency coordinating Operation Allies Welcome, and so much more. Now the third largest department in the Federal Government, DHS was forged from more than 20 agencies and offices in response to the 9/11 attacks. And, while each agency of DHS has its own distinct history and traditions, we share the same values and the same mission.

As Secretary, I have seen firsthand how the women and men of DHS steadfastly serve the Nation. Our commitment to service and the American public is unwavering. The information in the Department's performance and accountability reports is complete and reliable, except as otherwise reported in our Annual Performance Report. DHS's performance and accountability reports for this and previous years are available on our public website: http://www.dhs.gov/performance-accountability.

The Department's workforce continues to excel at safeguarding our assets, our Nation, and our values. We have much more to do, and we will succeed because of the immeasurable dedication and talent of the DHS workforce.

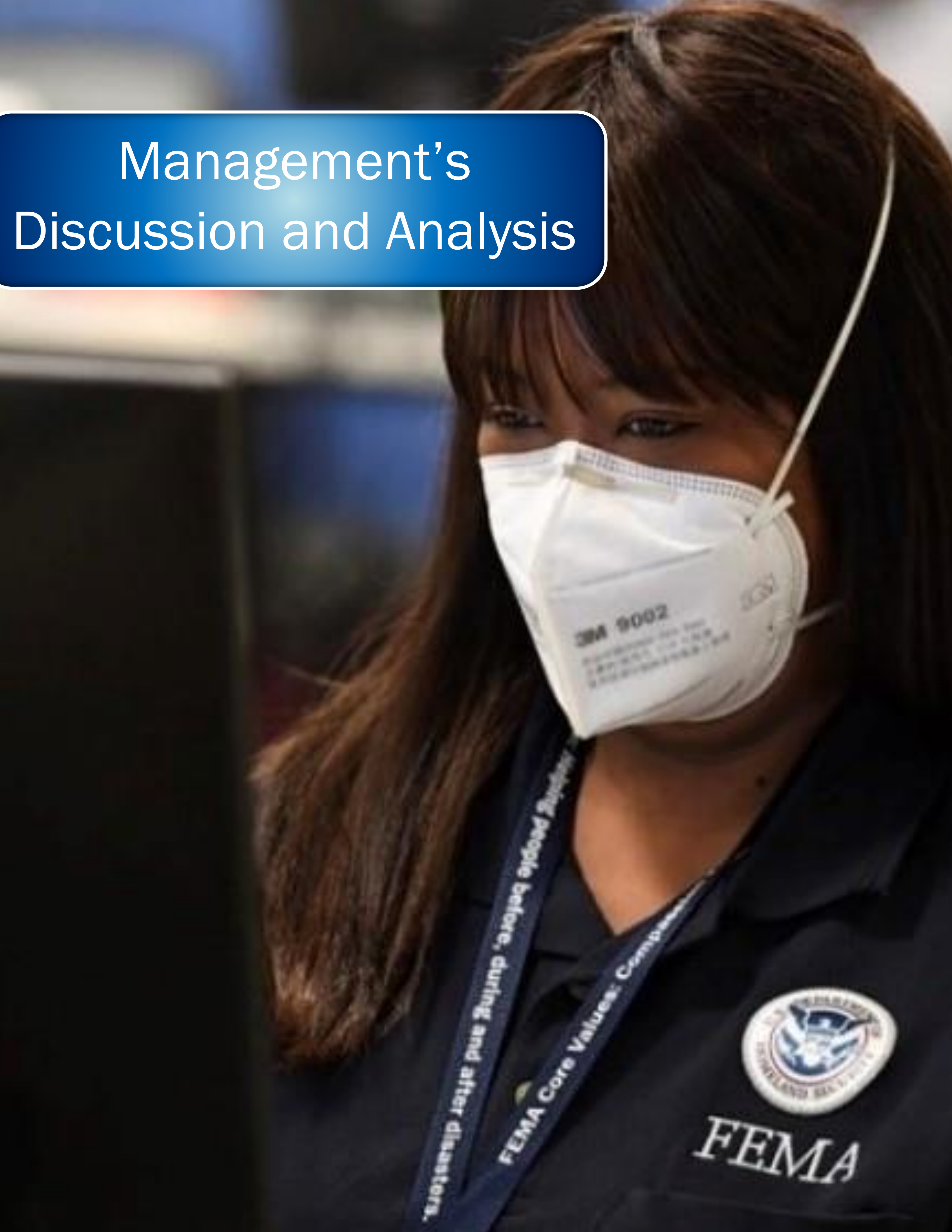
I am privileged to support our mission and those who enable it, and I am proud of what we have achieved.

Sincerely,

Alejandro N. Mayorkas

Alejandro N. Mayorkas
Secretary of Homeland Security

Management's Discussion and Analysis



The *Management's Discussion and Analysis* is required supplementary information to the financial statements and provides a high level overview of DHS.

The *Our Organization* section displays the Department's organization with links to the Department's Components.

The *Our Strategic Plan* section displays the Department's mission, goals and objectives.

The *Performance Overview* section provides a summary of progress for each of our Components, selected accomplishments, key performance measures, and future initiatives to strengthen the Department's efforts in achieving a safer and more secure Nation.

The *Financial Overview* section provides a summary of DHS's financial data explaining the major sources and uses of funds and provides a quick look at our Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources, and Statements of Custodial Activity.

The *Secretary's Assurance Statement* section provides the Secretary's Assurance Statement related to the Federal Managers' Financial Integrity Act, the Federal Financial Management Improvement Act, and the Department of Homeland Security Financial Accountability Act. This section also describes the Department's efforts to address our financial management systems to ensure systems comply with applicable accounting principles, standards, requirements, and with internal control standards.

Our Organization

The Department of Homeland Security has a vital mission: to secure the Nation from the many threats we face. This requires the dedication of more than 240,000 employees in jobs that range from aviation and border security to emergency response, from cybersecurity analyst to chemical facility inspector. Our duties are wide-ranging, and our goal is clear - keeping America safe. For the most up to date information on the Department's structure, visit our web site at https://www.dhs.gov/organization. Below is a listing and description of the Components of DHS.

Operational Components

U.S. Customs and Border Protection

Customs and Border Protection (CBP)

CBP is responsible for securing America's borders to protect the United States against threats and prevent the illegal entry of inadmissible persons and contraband, while facilitating lawful travel and trade.

Cybersecurity and Infrastructure Security Agency (CISA)

CISA leads the national effort to defend critical infrastructure against the threats of today, while working with partners across all levels of government and in the private sector to secure against the evolving risks of tomorrow.

FEMA

Federal Emergency Management Agency (FEMA)

FEMA helps people before, during, and after disasters. FEMA does this by supporting our citizens and first responders to ensure that, as a Nation, we work together to build, sustain, and improve our capability to prepare for, protect against, respond to, recover from, and mitigate all hazards.

Transportation Security Administration (TSA)

TSA protects the Nation's transportation systems to ensure freedom of movement for people and commerce.

U.S. Citizenship and Immigration Services

U.S. Citizenship and Immigration Services (USCIS)

USCIS administers the Nation's lawful immigration system, safeguarding its integrity and promise by efficiently and fairly adjudicating requests for immigration benefits while protecting Americans, securing the homeland, and honoring our values.

U.S. Immigration and Customs Enforcement

United States Immigration and Customs Enforcement (ICE)

ICE promotes homeland security and public safety through the criminal and civil enforcement of federal laws governing border control, customs, trade, and immigration.

United States Coast Guard (USCG)

USCG is one of the six armed forces of the United States and the only military organization within DHS. The USCG protects the maritime economy and the environment, defends our maritime borders, and saves those in peril.

United States Secret Service (USSS)

USSS safeguards the Nation's financial infrastructure and payment systems to preserve the integrity of the economy, and protects national leaders, visiting heads of state and government, designated sites, and National Special Security Events.

Support Components

[*Countering Weapons of Mass Destruction Office*]() *(CWMD)*
CWMD leads DHS efforts and coordinates with domestic and international partners to safeguard the United States against Chemical, Biological, Radiological, Nuclear, and health security threats.

Federal Law Enforcement Training Centers *(FLETC)*
FLETC provides career-long training to law enforcement professionals to help them fulfill their responsibilities safely and proficiently.

Management Directorate *(MGMT)*
MGMT is responsible for budget, appropriations, expenditure of funds, accounting and finance; procurement; human resources and personnel; information technology systems; facilities, property, equipment, and other material resources; providing biometric identification services; federal employee and federal facility protection; and identification and tracking of performance measurements relating to the responsibilities of the Department.

Office of Intelligence and Analysis *(I&A)*
I&A equips the Homeland Security Enterprise (HSE) with the timely intelligence and information it needs to keep the homeland safe, secure, and resilient.

Office of Inspector General *(OIG)*
OIG was established by the Homeland Security Act of 2002 (P.L. 107-296) by an amendment to the Inspector General Act of 1978 (92 Stat. 1101). OIG has a dual reporting responsibility to the Secretary of DHS and to Congress. OIG serves as an independent and objective audit, inspection, and investigative body to promote economy, effectiveness, and efficiency in DHS programs and operations, and to prevent and detect fraud, waste, and abuse.

Office of Operations Coordination *(OPS)*
OPS provides information daily to the Secretary of Homeland Security, senior leaders, and the homeland security enterprise to enable decision-making; oversees the National Operations Center; and leads the Department's Continuity of Operations, Continuity of Government, and critical infrastructure identification programs to enable the continuation of essential functions.

Science and Technology Directorate *(S&T)*
S&T is the primary research and development arm of the Department. It provides federal, state and local officials with the technology and capabilities to protect the homeland.

Our Strategic Plan (FY 2018 – FY 2022)

Mission: With honor and integrity, we will safeguard the American people, our homeland, and our values.

GOALS	OBJECTIVES
Counter Terrorism and Homeland Security Threats	• Collect, Analyze, and Share Actionable Intelligence • Detect and Disrupt Threats • Protect Designated Leadership, Events, and Soft Targets • Counter Weapons of Mass Destruction and Emerging Threats
Secure U.S. Borders and Approaches	• Secure and Manage Air, Land, and Maritime Borders • Extend the Reach of U.S. Border Security • Enforce U.S. Immigration Laws • Administer Immigration Benefits to Advance the Security and Prosperity of the Nation
Secure Cyberspace and Critical Infrastructure	• Secure Federal Civilian Networks • Strengthen the Security and Resilience of Critical Infrastructure • Assess and Counter Evolving Cybersecurity Risks • Combat Cybercrime
Preserve and Uphold the Nation's Prosperity and Economic Security	• Enforce U.S. Laws and Facilitate Lawful International Trade and Travel • Safeguard the U.S. Transportation System • Maintain U.S. Waterways and Maritime Resources • Safeguard U.S. Financial Systems
Strengthen Preparedness and Resilience	• Build a National Culture of Preparedness • Respond During Incidents • Support Outcome-Driven Community Recovery • Train and Exercise First Responders

Performance Overview

The Performance Overview provides an overview of our performance management framework, a summary of key performance measures, selected accomplishments, and forward-looking initiatives to strengthen the Department's efforts in achieving a safer and more secure Nation. A complete list of all performance measures and results will be published in the DHS FY 2021-2023 Annual Performance Report with the FY 2022 Congressional Budget Justification and will be available at: https://www.dhs.gov/performance-accountability. All previous reports can be found at this link as well.

DHS Performance Framework

The Department has a robust performance framework that drives performance management and enables the implementation of performance initiatives. This framework consists of core concepts and initiatives to assess program implementation progress, measure results, and drive the delivery of value to external stakeholders. The graphic shows these initiatives that come from both the *Government Performance and Results Act* (GPRA) of 1993, and its companion legislation, the *GPRA Modernization Act of 2010* (GPRAMA).

Figure 1: DHS Performance Management Framework

Performance Community

The DHS performance community is led by the Chief Operating Officer (a collateral duty of the Deputy Secretary of DHS), the Performance Improvement Officer (PIO) who is also the Director of Program Analysis and Evaluation (PA&E), and the Deputy PIO (DPIO) who is also the Assistant Director for Performance Management in PA&E. These leaders are supported by Performance Analysts in PA&E located under the DHS Chief Financial Officer (CFO) in the Management Directorate of DHS. The PIO, DPIO, and PA&E Performance Analysts are the liaison to our DHS Component performance management leaders and collaborators, along with various external stakeholders interested in performance management (shown in the graphic below).

Figure 2: DHS Organizational Performance Community

DHS Component PIOs, Agency Priority Goal (APG) Leads, and Strategic Review Assessment Leads are the senior leaders driving performance management efforts in their respective Components. Component Performance Leads are the critical liaison between DHS PA&E and Component leadership and program managers for all performance management initiatives. They assist with communicating guidance and initiatives, provide advice on measure development concepts, collect and review measure results, and coordinate with Component leadership on performance management initiatives. Strategic Review Lead Assistants play a key role in managing Assessment Team efforts annually and refining and delivering key findings from the review process. Program managers across DHS Components are key contributors to the Strategic Review assessment, along with generating ideas for performance measures, producing measure data, and using the information to manage and improve operations.

Improving our Measures

With the support of leadership and our Components, PA&E initiates the annual measure improvement process to enhance our set of publicly reported measures to more effectively convey the results delivered to stakeholders. Improvement ideas are derived from several sources:

- Feedback provided by senior leadership to mature our ability to describe the value delivered by DHS;
- Component leadership and program managers' desire to implement measures that are meaningful to current operations and goals;
- Suggestions from PA&E Performance Analysts working to fill gaps and improve quality;
- Suggestions from the Office of Management and Budget (OMB) to achieve greater visibility into program performance and connections to program resources; and
- Recommendations from other external stakeholders such as the Government Accountability Office (GAO) and Congress.

Figure 3: DHS Annual Measure Improvement Process

While measured improvement is iterative, we use the annual process to mature the breadth and scope of our publicly reported set of measures, as shown in the figure above. The process begins in the winter after implementing the new measures in the agency performance plan, to identify gaps that were not filled along with areas where improved measures are desired. Improvement efforts continue into the spring since it can take six to nine months to develop new measure concepts depending on the complexity and scope of data collection. Summer is the Department's review of Component proposals and discussions with OMB continue into the fall.

Internal Controls for Verification and Validation

The Department recognizes the importance of collecting complete, accurate, and reliable performance data that is shared with leadership and external stakeholders. Performance data are considered reliable if transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management. OMB Circular A-136, *Financial Reporting Requirements*, OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, and the *Reports Consolidation Act* of 2000 (Public Law (P.L.) No. 106-531) further delineate this responsibility by requiring agencies to ensure completeness and reliability of the performance data they report by putting management assurance procedures in place[1].

DHS has implemented a multi-pronged approach to effectively mitigate risks and reinforce processes that enhance the Department's ability to report complete and reliable data for performance measure reporting. This approach consists of: 1) an annual measure improvement and change control process described in the previous section using the Performance Measure Definition Form; 2) a central information technology repository for performance measure information; 3) a Performance Measure Checklist for Completeness and Reliability used by Components to self-assess and rate their compliance with internal controls over performance information; and 4) annual assessments of the completeness and reliability of a sample of our performance measures by an independent review team.

Quarterly Performance Reporting

Quarterly reporting of the Department's strategic measures is provided by Component program managers, reviewed by Component managers and performance staff, entered into the Performance Management System, and then reviewed by PA&E performance staff. Components use the information to keep their leadership abreast of measure results and progress. PA&E also prepares a Quarterly Performance Report that has visualizations of select measure results over time, along with a trend report for all measures in the strategic and management sets. These reports are shared quarterly with PIO and DPIO, posted on the DHS intranet site, and are available to all DHS senior leaders and program managers to support on-going program management activities. Many Components have their own internal processes and products they use to review performance data for management and decision making.

Performance Public Reporting

The Department follows the OMB Circular A-11 and A-136 requirements to produce the following reports to communicate key financial and performance information to stakeholders:

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[1] Note: Circular A-11, PART 6, THE FEDERAL PERFORMANCE FRAMEWORK FOR IMPROVING PROGRAM AND SERVICE DELIVERY, Section 240.26 Definitions. Data limitations. In order to assess the progress towards achievement of performance goals, the performance data must be appropriately valid and reliable for intended use. Significant or known data limitations should be identified to include a description of the limitations, the impact they have on goal achievement, and the actions that will be taken to correct the limitations. Performance data need not be perfect to be valid and reliable to inform management decision-making. Agencies can calibrate the accuracy of the data to the intended use of the data and the cost of improving data quality. At the same time, significant data limitations can lead to bad decisions resulting in lower performance or inaccurate performance assessments. Examples of data limitations include imprecise measurement and recordings, incomplete data, inconsistencies in data collection procedures and data that are too old and/or too infrequently collected to allow quick adjustments of agency action in a timely and cost-effective way.

- DHS Agency Financial Report (this report);
- DHS Annual Performance Report; and
- DHS Summary of Performance and Financial Information (Citizen's Report).

Combined, these reports comprise our annual performance and accountability reporting requirements. When published, all three reports are located on our public website at Performance & Financial Reports.

Agency Priority Goals

Agency Priority Goals (APGs) are one of the tenets of GPRAMA and provide a tool for senior leadership to drive the delivery of results on key initiatives over a two-year period. Quarterly reports of progress are provided to interested parties through the OMB website Performance.gov and information on the DHS APGs are presented in our Annual Performance Report.

Performance Reviews

DHS implemented Performance Reviews as a means for senior leadership to engage in the management of efforts to deliver performance results relevant to stakeholders. Meetings are held with APG Goal Leads, senior leaders, subject matter experts, and performance leadership and staff to discuss current results, progress, and challenges being faced by these complex issues.

Strategic Review

The Strategic Review (SR) is a DHS-wide assessment, using evidence, to assess program progress in delivering on our mission. In FY 2021, DHS conducted its eighth annual SR. Twenty-three mission programs were included in the assessment and represent our large operational programs delivering results to external stakeholders. The SR serves as a tool to integrate activities associated with other key legislation such as the *Foundations for Evidence-Based Policymaking Act* of 2018, the *Program Management and Accountability Improvement Act* (PMIAA) of 2018, and *OMB guidance regarding Enterprise Risk Management implementation*.

The SR serves multiple purposes for Components, DHS, and OMB to: 1) assess progress of our program implementation efforts as a means for improvement; 2) facilitate best practices of a learning organization by reflecting annually on where we have been and where we are going; 3) advance the use of risk, program management, and evaluation practices; 4) make key findings available to Component and DHS senior leaders to inform management efforts; 5) provide feedback from execution to planning, programming, and budgeting activities; 6) integrate evidence-building activities into the Strategic Review and other key planning processes; and 7) drive a focused conversation with OMB on significant issues to inform their management and budget activities.

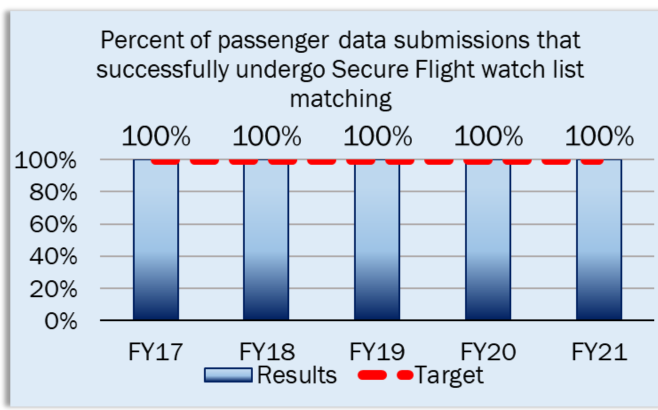
DHS Summary of Key Performance Measures

Strategic plan goals are implemented by our mission programs which are groups of activities acting together to accomplish a specific high-level outcome external to DHS and include operational processes, skills, technology, human capital, and other resources. Mission programs have performance goals, performance measures, and performance targets. Below are a select set of measures that describe how our mission programs drive to deliver on the DHS mission.

Goal 1: Counter Terrorism and Homeland Security Threats

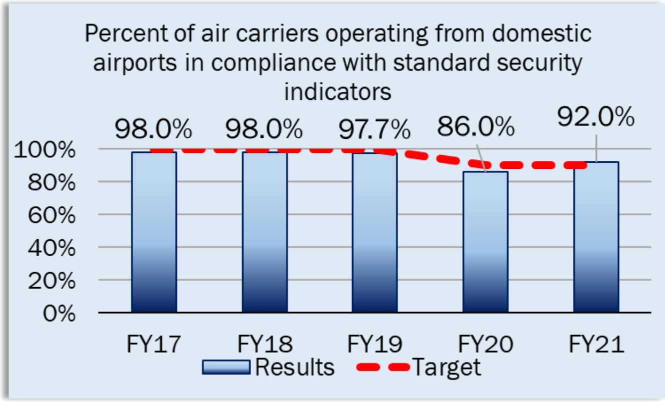
One of the Department's top priorities is to protect Americans from terrorism and other homeland security threats by preventing nation-states and their proxies who engage in terrorist or criminal acts from threatening the homeland. Terrorists and criminals are constantly adopting new techniques and sophisticated tactics to circumvent homeland security and threaten the safety, security, and prosperity of the American public and our allies. The rapidly evolving threat environment demands strategies and tactics to ensure a proactive response by DHS and its partners to identify, detect, and prevent attacks against the United States. Focused activities associated with this goal includes information sharing, aviation security, and protection of national leaders and events.

The following measures highlight some of our efforts to counter terrorism and homeland security threats. Up to five years of data is presented if available.

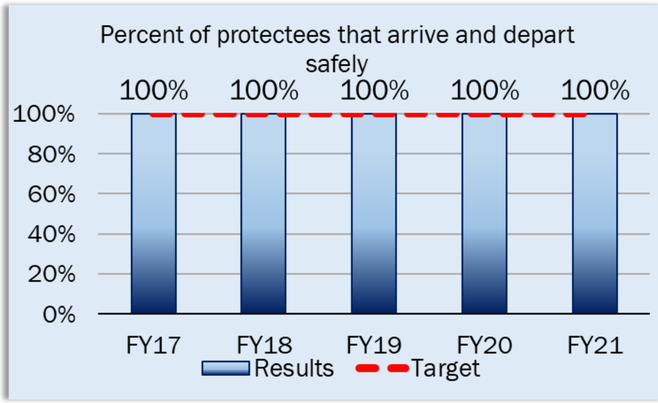


Percent of passenger data submissions that successfully undergo Secure Flight watch list matching (TSA): Vetting individuals against high-risk watch lists strengthens the security of the transportation system by ensuring that individuals on the No Fly List are prevented from boarding an aircraft and informs the traveling public that all covered domestic and international air passengers have undergone checking against these watch lists. This measure reports the percent of qualified message submissions received from the airlines that are successfully matched by the Secure Flight automated vetting system against the existing high-risk watch lists. A qualified message submission from the airlines contains sufficient passenger data to allow successful processing in the Secure Flight automated vetting system. In FY 2021, this measure achieved 100 percent, meeting the target, and has maintained this level of performance since 2010. DHS will continue to report this measure as it conveys an underlying critical layered process to ensure security in the aviation environment.

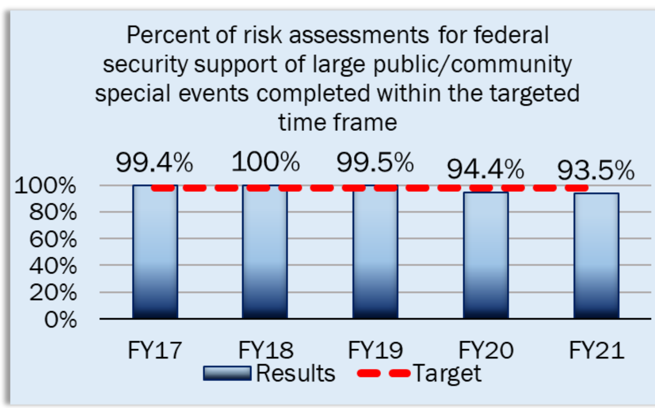
Percent of air carriers operating from domestic airports in compliance with standard security indicators (TSA): Air carrier inspections can include one or more aspect of operations such as catering, cargo acceptance and aircraft searches and allow for improved collaborations, information sharing, and facility awareness of emerging security risks. Inspections are conducted in accordance with the Compliance Implementation Plan that identifies three types of inspections (comprehensive, targeted, and supplemental). The plan identifies the timeframe in which each inspection is conducted, based on the air carriers Inspection Frequency Score (IFS). The IFS is determined by a carrier's: 1) Risk register; 2) Compliance history (last 3 years); 3) Enforcement Investigative Reports (EIRs) (Administrative vs Civil Penalty); and 4) Local TSA office assessments/surveys. For FY 2021, a total of 12,077 inspections were conducted with 1,216 Findings, as COVID-19 affected overall planned inspection activity. TSA continually works with TSA-regulated entities implementing Outreach, Action Plans and Joint Testing to enhance security. Inspectors conduct inspections on an annual basis and can include one or more aspect of operations that an air carrier oversees such as catering, cargo acceptance and aircraft searches. The targets were lowered in FY 2020 and FY 2021 due to COVID-19.



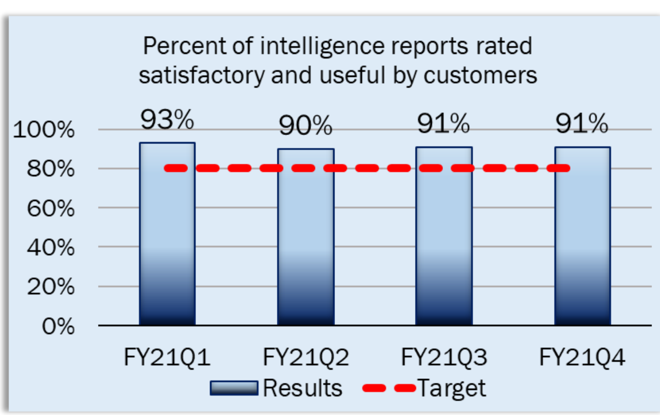
Congress allocated up to $10M in FY 2018 for TSA to test and analyze perimeter intrusion and detection technologies. TSA's Multimodal Public Areas Capabilities (MPAC) formally partnered with a CAT I and CAT X in September 2019 through Other Transaction Agreements. In FY 2021, MPAC successfully completed the bidding and award phase to choose the installation vendors and began installation of the perimeter intrusion technologies.



Percent of protectees that arrive and depart safely (USSS): This measure reflects the effectiveness of efforts to ensure safe travel (arrive and depart safely) for the President and Vice President of the United States and their immediate families, former presidents, their spouses, and their minor children under the age of 16, major presidential and vice-presidential candidates and their spouses, and foreign heads of state. In FY 2021, 4,710 protective visits occurred. The target is always 100 percent and the USSS has achieved 100 percent of safe arrivals and departures for the past five years. To achieve these results takes a coordinated effort across several specialized resources within USSS and coordination with federal, state, and local partners. Using advanced countermeasures, the USSS executes security operations that deter, minimize, and decisively respond to identified threats and vulnerabilities to keep protectees safe.



Percent of risk assessments for federal security support of large public/community special events completed within the targeted time frame (OPS): This measure indicates the timeliness of risk assessments that are used by federal agencies as criteria to determine their level of support to state and local events and is the primary federal awareness mechanism for special events occurring across the Nation. This measure indicates the percent of Special Event Assessment Ratings completed within the targeted timeframe as voluntarily requested from state and local authorities for events taking place within their jurisdictions. OPS provided on-time risk assessment ratings 93.5 percent of the time, slightly lowered than previous year. Technology enhancements will support a more robust performance in the future as well as addressing issues related to surge activity.



Percent of intelligence reports rated satisfactory and useful by customers (I&A): This measure gauges the extent to which finished intelligence products are satisfying customers' needs. An intelligence report is a product of analytical judgement applied to address an intelligence question produced by DHS or through partnerships with other agencies where the analytic conclusions have been drafted, reviewed, and disseminated to customers. Providing intelligence on topics of concern equips the Homeland Security Enterprise with the timely intelligence and information it needs to keep the homeland safe, secure, and resilient. In FY 2021, DHS intelligence reports were rated as satisfactory or higher resulting in a 91 percent rating, meeting the target. This was a new measure in the FY 2021 Performance Plan so there is no trend data.

Looking Forward

A few near-term efforts to advance the Department's capability and capacity in these areas are provided below.

> **DID YOU KNOW?**
>
> The TSA "Red Team" covertly tests all aspects of aviation security including the TSA checkpoints at over 450 airports nationwide. In FY 2021, over 1500 tests were conducted. The Red Team awarded over 1,100 recognition awards to screening personnel who successfully prevented simulated attacks.

- <u>Aviation Security:</u> TSA continues to seek and deploy improvements to airport scanning and detection, with new technology to enhance explosives detection and other threat-detection capabilities at airport checkpoints. TSA has begun installing computed tomography scanners that apply sophisticated algorithms for the detection of explosives and create three-dimensional images that TSA officers can manipulate to analyze scanned images thoroughly. Additionally, TSA responded to COVID-19 by improving safety for officers and travelers through increased sanitation; distribution of Personal Protective Equipment to frontline workers; rapid deployment of acrylic shielding at checkpoints; modifying Credential Authentication Technology (CAT) to limit document exchanges; and reducing false alarm rates to require fewer pat-downs. Moving forward, TSA will establish a recapitalization acquisition program to address existing technologies that are near the end of their life while continuing to deploy Computed Tomography, Credential Authentication Technology, and other technology to improve detection capabilities. With regard to personnel and training, TSA plans to hire new Transportation Security Officers to keep pace with increased travel volume (Post-COVID-19).
- <u>Unmanned Aircraft Systems (UAS):</u> Terrorists continue to use UAS (i.e., drones) to conduct surveillance and potentially launch terrorist attacks which are a real threat across many domains. Drug smugglers have used these systems to monitor border patrol officers and to enable the delivery of drugs in remote areas. Additionally, criminals and nation-states are using them to spy on sensitive facilities. Threats continue to evolve, and unmanned aerial systems can support a wide array of emerging threats. To address this, the Department has taken a tactical and preemptive approach across several Components which includes:
  - A combined effort between CBP, CISA, USCG, and others to implement counter-UAS (CUAS) technologies to: enhance situational awareness along land and sea borders at and between Ports-of-Entry; enhance agencies' ability to share, query, and analyze law-enforcement information/data to advance investigations; deploy

improved tools to promote the safety and effectiveness of DHS personnel; improve the detection and tracking of low-altitude airborne threats; expand capabilities to integrate border-security sensor and intelligence sources; leverage data analytics; and share resulting actionable intelligence with partners across the homeland security enterprise.

- S&T will invest in research and development activities to understand how the department can better apply UAS advances to protect the American people, increase operational efficiencies, and improve command and control decision-making, especially when combined with CUAS technologies.

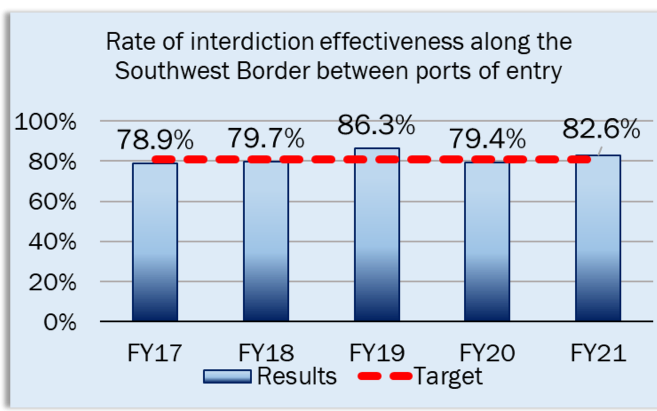
Goal 2: Secure U.S. Borders and Approaches

Secure borders are essential to our national sovereignty. DHS continues its efforts to secure and maintain control of our land and maritime borders. Concentration is also focused on Transnational Criminal Organizations and preventing the impact of these organizations operating both domestically and internationally. Efforts also continue to pursue, and appropriately prosecute, those illegally in the interior of the country and ensure that we properly administer immigration benefits and employ only those who are authorized to work.

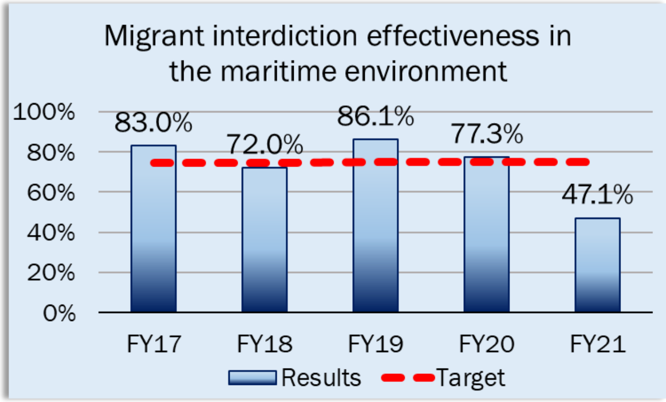
> **DID YOU KNOW?**
>
> CBP's biometric seamless passenger experience can contribute to the reduction of travel health risks and to the recovery of the travel and tourism industry by mitigating the risk of pathogen transmission.

The following measures highlight some of our efforts to secure U.S. borders and approaches. Up to five years of data is presented if available.

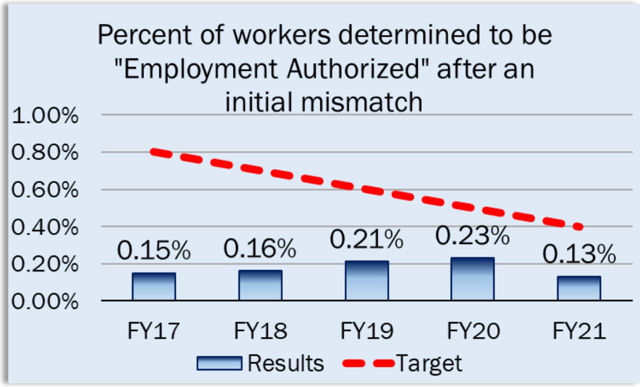
Rate of interdiction effectiveness along the Southwest Border between ports of entry (CBP): The Border Patrol uses this measure as an important indicator of the effectiveness of law enforcement and response efforts to apprehend detected illegal border crossers and as a key indicator of the status of security over the U.S. border. Results for this measure have varied significantly the past three years. The interdiction rate has increased due largely to the unprecedented mass illegal migration of families and unaccompanied children that voluntarily surrendered to Border Patrol Agents. Improved detection and tracking tools resulted in better awareness of illegal crossing activity, but agents faced challenges to interdict evading groups often guided by criminal organizations. Since late March 2020, Border Patrol has been implementing the federal regulation entitled *Suspending Introduction of Persons from a Country Where a Communicable Disease Exists* (85 Fed Reg 17060), which provides for persons subject to the order to be expelled from the U.S. as expeditiously as possible under Title 42 of the U.S. Code, instead of being subjected to processing under Title 8 due to the ongoing pandemic, additionally lowering the interdiction



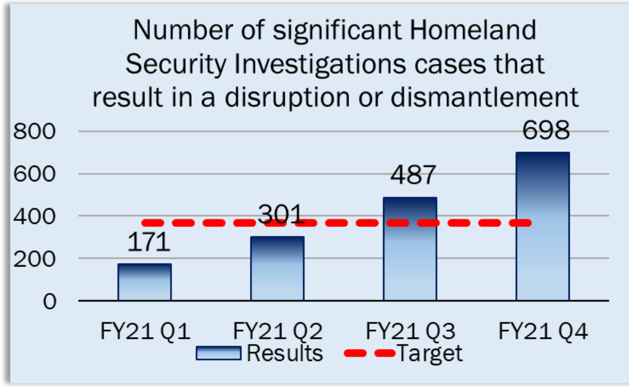
effectiveness rate. Going forward, the Border Patrol will continue to shift resources to locations that are determined to be the best use of personnel and surveillance technology to meet estimated targets.



Migrant interdiction effectiveness in the maritime environment (USCG): This measure communicates the effectiveness of the maritime law enforcement program to interdict migrants of all nationalities attempting to enter the United States through maritime borders not protected by the Border Patrol. This measure reports the percent of detected migrants who were interdicted by the USCG and partner Nations via maritime routes. The USCG conducts patrols and coordinates with other federal agencies and foreign countries to interdict migrants at sea, denying them entry via maritime routes to the United States, its territories, and possessions. Over the past two years, an increase in partner Nation reporting efforts has allowed for better data collection and analysis. Partner Nation interdictions make up approximately 50 percent of the migrants interdicted in the maritime domain. There is not one factor that would conclusively indicate why the result is 47.1 percent in FY 2021; however, it is likely due to changing maritime migration patterns to include increased Haitian flow. USCG will continue to adjust patrol patterns to meet the changes in the migrant flow.



Percent of workers determined to be "Employment Authorized" after an initial mismatch (USCIS): This measure assesses the accuracy of E-Verify by the percent of employment verification requests that are not confirmed as work authorized during the initial review. E-Verify confirms employment eligibility of new hires by electronically matching information provided by employees on the I-9 Form, Employment Eligibility Verification, against records available to the Social Security Administration and DHS. The report shows the number of cases in which examiners in the program find an individual "employment authorized" after an initial mismatch. Ensuring the accuracy of E-Verify reflects the program's intent to minimize negative impacts imposed upon those entitled to employment in the U.S. while ensuring the integrity of immigration benefits by effectively detecting and preventing unauthorized employment. A lower result indicates the system is effective in confirming employment eligibility and does not require manual intervention. USCIS continues to increase the records available for electronic matching, which strengthens the program against identity fraud.



Number of significant Homeland Security Investigation cases that resulted in a disruption or dismantlement (ICE): This measure reports on the total cumulative number of significant transnational criminal investigations that resulted in a disruption or dismantlement. To be considered significant, the investigation must involve a high-threat transnational criminal organization engaged in criminal activity related to illicit trade, travel, or finance (both drug-related or non-drug-related); counter-terrorism; national security; worksite enforcement; gangs; or child exploitation. "Disruption" is defined as impeding the normal and effective operation of the targeted organization. "Dismantlement" is defined as destroying the organization's leadership, financial base and network to the degree that the organization is incapable of operating and/or reconstituting itself. With the adoption of the new "Number of" measures, along with Significant Case Report (SCR) Program training, HSI special agents have a better understanding of HSI's Key Measure and are able to submit multiple disruptions and dismantlement toward SCR designated cases. The factors mentioned above have led to an increase in SCR submissions. Based on the above, HSI was able to meet its target for FY 2021.

Looking Forward

A few near-term efforts to advance the Department's capability and capacity in these areas are provided below.

- **Border Security Operations:** CBP's top priority lies in keeping terrorists and their weapons from entering the U.S. while welcoming all legitimate travelers and commerce. The Border Security Operations program provides situational awareness; impedance and denial; and law enforcement response and resolution, securing the U.S. border between ports of entry. Since FY 2020, pandemic-driven efforts including the activation of Title 42 authorities, permitted the program to return most illegal crossers immediately on encounter, with no consequence. Changes in the composition of the cross-border flow have expanded non-interdiction tasks for agents, underscoring the critical importance of the program's new Border Patrol Processing Coordinator position. In addition, Border Patrol will continue employing best-available technology to improve situational awareness.
- **Homeland Security Investigations (HSI):** Homeland Security Investigations combats Transnational Criminal Organizations (TCOs) and the exploitation of systemic vulnerabilities in trade and immigration to thwart foreign terrorists and other criminals and organizations from endangering the American people. HSI continued "Operation Stolen Promise" in FY 2021, which targets pandemic-related fraud through the disruption of TCOs distributing counterfeit personal protective and medical equipment. In addition, HSI continued to coordinate with the Small Business Administration to combat financial fraud under the Coronavirus Aid, Relief and Economic Security Act. Next steps include an interagency dialog to establish a framework, set lines of responsibility, and avoid

duplicative efforts to develop a whole-of-government strategy to counter criminal and terrorist threats. Lastly, ICE has begun to look at a five-year plan for the Innovation Lab to implement new digital technology and open-source data techniques in support of HSI's efforts.

- **Remove those who have entered the country illegally** ICE's Enforcement and Removal Operations (ERO) and the Office of the Principal Legal Advisor (OPLA) work to remove those who pose a threat to national security, public safety, and border security. While workload, technology, staffing, and interagency collaboration continue to pose challenges, these two programs persist in implementing corrective actions to maximize their effectiveness. The pandemic led to a dramatic increase in litigation challenges requiring intensive OPLA litigation in defense of agency authorities. To manage this workload, OPLA, ERO, and the Department of Justice have increased collaboration to improve processing while simultaneously addressing OPLA staffing models to align with the Executive Office for Immigration Review's docket, staffing, and expansion of court facilities to address case backlog.

In May 2021, U.S. Border Patrol agents from Rio Grande Valley Sector's Kingsville Station used a small unmanned aircraft system (sUAS) to locate a lost undocumented migrant in need of help. The agent operating the drone quickly transmitted the location to a U.S. Border Patrol paramedic, whose immediate response stabilized the patient suffering a diabetic emergency.

- <u>E-Verify</u> USCIS' E-Verify program is a web-based system that allows enrolled employers to confirm the eligibility of their employees to work in the United States. The program continued to offer employment verification services seamlessly during the pandemic and adapts to the public health and other needs while working closely with Government and industry partners. E-Verify deployed a new Customer Relationship Management platform that improved case management, workload tracking, outreach and engagement, as well as a Verification Information System data reporting warehouse for constant, accurate and timely reporting. Looking forward, the program plans to complete the retirement of legacy E-Verify components to reduce maintenance costs and enable accelerated process modernization. The program will continue enhancing the document upload capability in E-Verify to streamline manual processing of cases through FY 2022. This capability allows employees to electronically submit documents to resolve data mismatches.

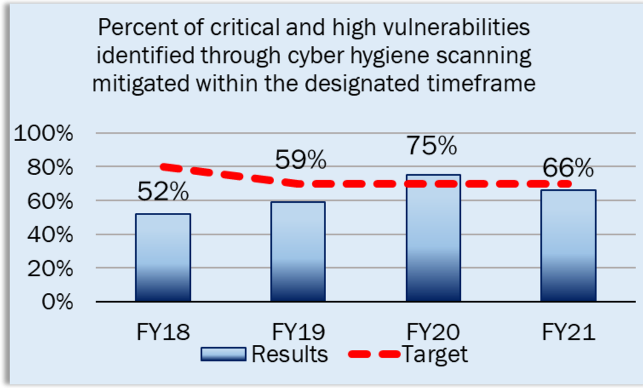
<u>Goal 3: Secure Cyberspace and Critical Infrastructure</u>

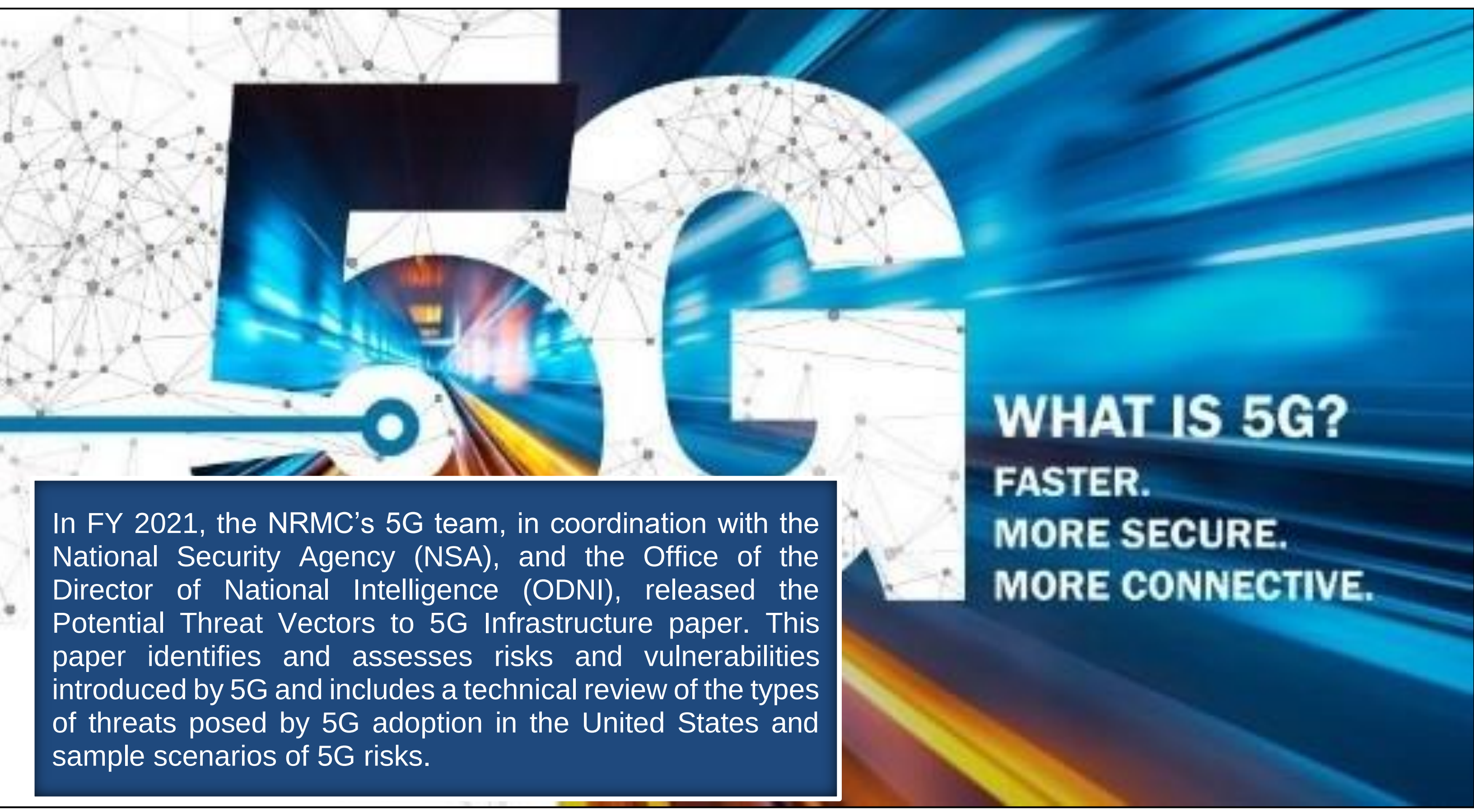
Increased connectivity of people and devices to the Internet and to each other has created an ever-expanding attack surface that transcends borders and penetrates almost every American home. In addition, the Federal Government depends on reliable and verifiable information technology systems and computer networks for essential operations. As a result, malicious cyber attackers target government systems to steal information, disrupt and deny access to information, degrade or destroy critical information systems, or operate a persistent presence capable of tracking information or conducting a future attack. Serving as the designated federal lead for cybersecurity across the U.S. Government, DHS promotes the adoption of common policies and best practices that are risk-based and responsive to the ever-changing cyber threat environment. Additionally, DHS collaborates with federal interagency counterparts to deploy capabilities for intrusion detection, unauthorized access prevention, and near real-time cybersecurity risk reports. In deploying these capabilities, DHS prioritizes assessments, security measures, and remediation for systems that could significantly compromise national security, foreign relations, the economy, public confidence, or public health and safety.

The Department's Cybersecurity and Infrastructure Security Agency (CISA) advised TSA on cybersecurity threats to the pipeline industry, as well as technical countermeasures to prevent those threats, in response to the Colonial Pipeline cyber-attack, DHS's Transportation Security Administration (TSA) announced the issuance of a second Security Directive that requires owners and operators of TSA-designated critical pipelines that transport hazardous liquids and natural gas to implement a number of urgently needed protections against cyber intrusions, including specific mitigation measures to protect against ransomware attacks and other known threats to information technology and operational technology systems, develop and implement a cybersecurity contingency and recovery plan, and conduct a cybersecurity architecture design review.

The following measures highlight some of our efforts to secure federal cyberspace and critical infrastructure. Up to five years of data is presented if available.

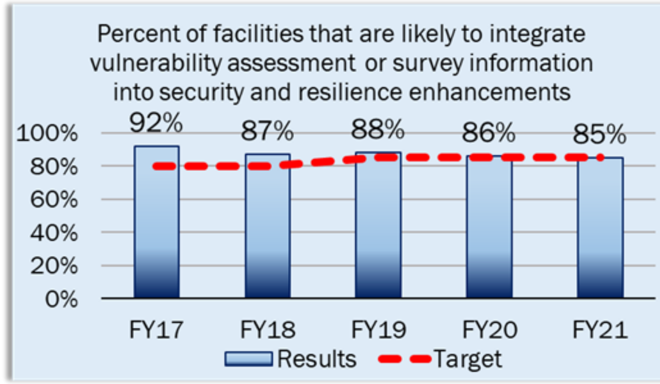
Percent of critical and high vulnerabilities identified through cyber hygiene scanning mitigated within the designated timeframe (CISA): DHS provides cyber hygiene scanning to Federal Civilian Executive Branch (FCEB) agencies to aid them in identifying and prioritizing vulnerabilities based upon severity, which in turn enables FCEB agencies to make risk-based decisions regarding their network security posture. For "critical" vulnerabilities, mitigation is required within 15 days from point of initial detection; for "high" vulnerabilities mitigation is required within 30 days of initial detection. Timely identification and mitigation of network vulnerabilities is a critical component of an effective cybersecurity program, and paramount to maintaining the integrity and operational availability of systems. With Binding Operational Directive 19-02 in effect since April 2019, FCEB agencies have demonstrated improved progress in mitigating "critical" and "high" vulnerabilities within mandated timelines. In turn, the FY 2021 result was 66 percent. Collectively, these mitigation efforts have contributed to an overall trend of improvement for the FCEB Enterprise, and DHS continues to work with agencies on achieving even higher rates of timely mitigation.





In FY 2021, the NRMC's 5G team, in coordination with the National Security Agency (NSA), and the Office of the Director of National Intelligence (ODNI), released the Potential Threat Vectors to 5G Infrastructure paper. This paper identifies and assesses risks and vulnerabilities introduced by 5G and includes a technical review of the types of threats posed by 5G adoption in the United States and sample scenarios of 5G risks.

Percent of facilities that are likely to integrate vulnerability assessment or survey information into security and resilience enhancements (CISA): This measure demonstrates the percent of facilities that are likely to enhance their security and resilience by integrating Infrastructure Protection vulnerability assessment or survey information. Security and resilience enhancements can include changes to physical security, security force, security management, information sharing, and protective measures. Providing facility owners and operators with vulnerability information allows them to understand and reduce risk to the Nation's critical infrastructure. The program maintains a strong positive response on integrating assessment and survey information despite limitations in delivering assessments and follow-ups due to social distancing requirements during the pandemic. Current year's results are consistent with the five-year trend.



Looking Forward

A few near-term efforts to advance the Department's capability and capacity in these areas are provided below.

- **<u>Improve cybersecurity posture of federal enterprise network</u>:** CISA continues to defend and secure the federal enterprise network, systems, and assets against a spectrum of risks. The agency has advanced the security of federal networks. However, strategies are lacking for managing and securing the federal cloud environments and software updates. Insufficient information about specific cyber events impairs the program's ability to assess mission and strategic risks adequately. Looking forward, CISA plans to improve the quality of new hires and the flow of the hiring process to address long-standing needs, increase analytical staffing to improve situational awareness and increase trust with state, local, tribal, and territorial governments and communities; improve shared situational awareness, bi-lateral communications, and increased visibility into critical infrastructure.

DID YOU KNOW?

The National Defense Authorization Act of 2021 requires that DHS execute National Cyber Exercises. Cyber Storm, the Nation's biennial capstone cybersecurity exercise sponsored by CISA, satisfies this legislative requirement, and Cyber Storm VIII, scheduled for spring 2022, will be the first iteration of the exercise conducted under this legislation.

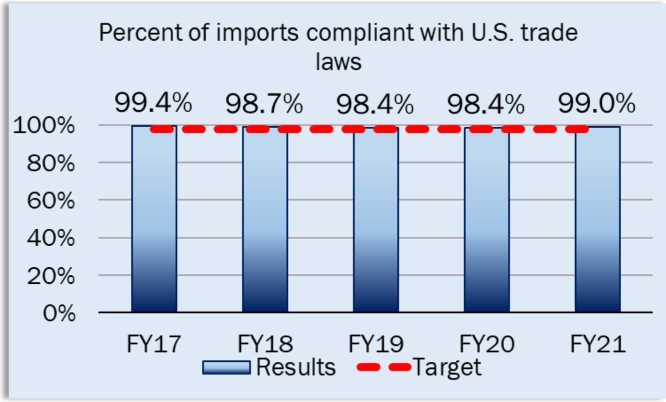
- **<u>Infrastructure Security:</u>** CISA coordinates the national effort to secure the Nation's critical infrastructure. The infrastructure security mission is a continuous national effort to identify critical cyber and physical systems and assets, to understand their vulnerabilities—especially against terrorism, and intentional cyber threats, and to take action to reduce risks. There is a need to develop sustained architecture for managing the Sector Risk Management Agencies' structure and responsibilities. The lack of long-term authorization for the Chemical Facility Anti-Terrorism Standards (CFATS) program inhibits the ability for facilities to engage in longer term strategic planning, make large capital investments, and retain talent. Looking forward, the program has engaged the National Security Council on potential successor policy directives to Presidential Policy Directive-21, plans to deliver a National Infrastructure Protection Plan, and is seeking policy solutions for possible chemical facilities of interest and non-regulated facilities. Finally, the program has considered implementing a revised CISA Gateway, which the agency could expand and integrate with common data platforms to deliver multiple services.

- **National Risk Management Center (NRMC):** Critical infrastructures include those assets, systems, and networks that provide functions necessary for our way of life. From generating electricity to supplying clean water, DHS monitors 16 critical infrastructure sectors that form a complex, interconnected ecosystem, including communications, energy, transportation, emergency services, and water. The NRMC works closely with the private sector which owns and operates the nation's critical infrastructure and industry, working together in the governments shared management of risk. As the Department's planning, analysis, and collaboration center, the NRMC works to convene the private sector, government agencies, and other key stakeholders together to identify, analyze, prioritize, and manage the most significant risks to our critical infrastructure. Moving forward, the NRMC will continue to build a capability roadmap that will baseline current capabilities, identify infrastructure-security capability gaps, outline a 5-year strategy to address those gaps, address the needed authorities to allow for increased coordination and collaboration with the risk community, and develop training programs to serve as a career roadmap for analysts and build a full spectrum of leadership training opportunities.

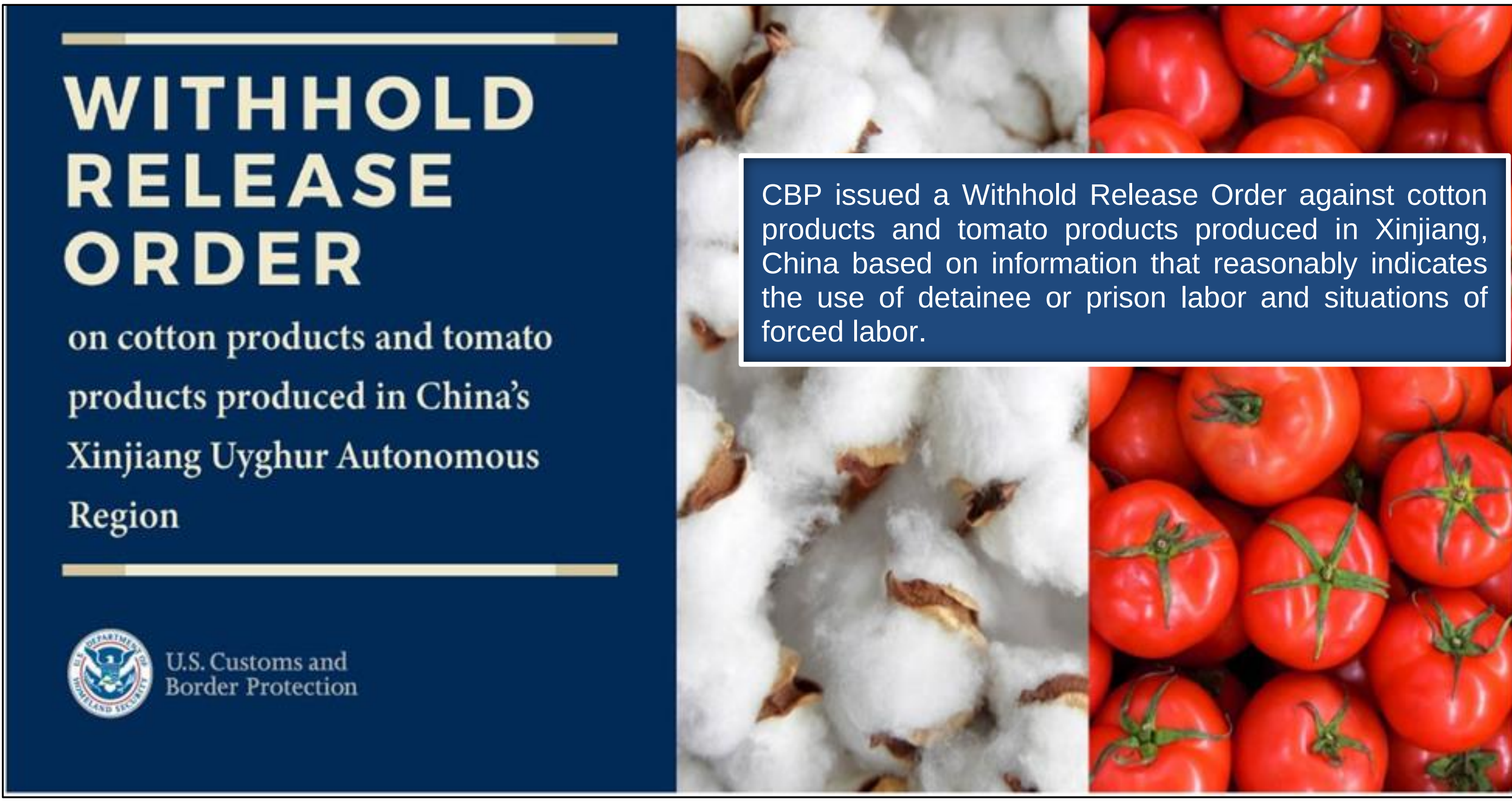
Goal 4: Preserve and Uphold the Nation's Prosperity and Economic Security

America's prosperity and economic security are integral to homeland security and are achieved through our international trade operations, maritime natural resources, ice breaking for commercial cargo, aids to navigation for boats/ships, and protection of the nation's financial systems.

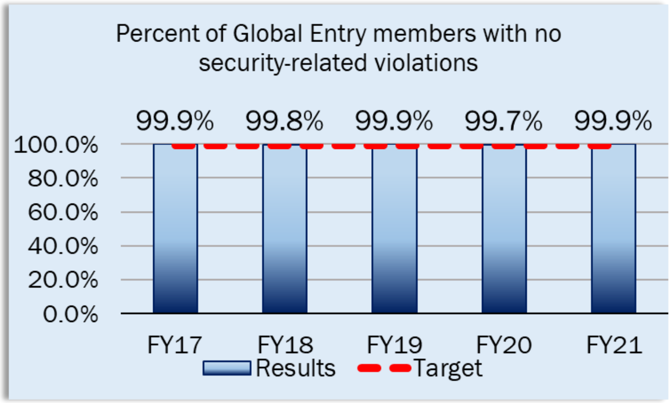
The following measures highlight some of our efforts to preserve and uphold the nation's prosperity and economic security. Up to five years of data is presented if available.



Percent of imports compliant with U.S. trade laws (CBP): This measure reports the percent of imports that are compliant with [U.S. trade laws including customs revenue laws](), based on statistical sampling. Ensuring all imports are legally compliant and that their entry records contain no major discrepancies facilitates lawful trade. CBP, the importing community, and our federal partners have a shared responsibility to maximize compliance with laws and regulations. In carrying out this task, CBP encourages importers to become familiar with applicable laws and regulations and work together with the CBP Office of Trade to protect American consumers from harmful and counterfeit imports by ensuring the goods that enter the U.S. marketplace are genuine, safe, and lawfully sourced. This long-standing measure shows a consistently high compliance rate with FY 2021 results in-line with recent trends. While the expansion of e-commerce has led to greater trade facilitation, its overall growth has facilitated online trafficking in counterfeit and pirated goods that are typically shipped through international mail and express courier services and account for approximately 90 percent of counterfeit seizures.

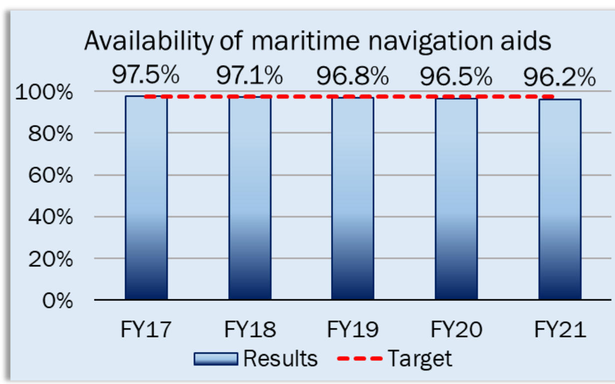


CBP issued a Withhold Release Order against cotton products and tomato products produced in Xinjiang, China based on information that reasonably indicates the use of detainee or prison labor and situations of forced labor.

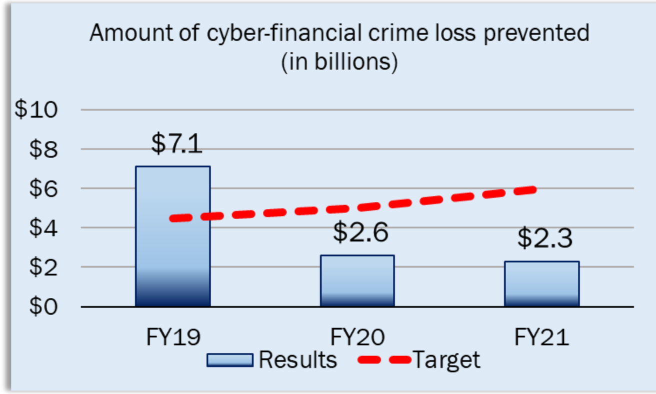


Percent of Global Entry member with no security-related violations (CBP): This measure shows CBP's success at maintaining a high level of security in the international air environment by measuring the degree of compliance with all federal, state, and municipal laws and regulations that CBP is charged with enforcing at the ports of entry (international airports). During typical non-pandemic times, CBP officers welcome almost a million international travelers daily. In screening both foreign visitors and returning U.S. citizens, CBP uses a variety of techniques to assure that global tourism remains safe and strong. In FY 2021, the Travel program continued its outstanding performance in safeguarding international travel. While COVID-19 impacted the volume of travel into the United States this past years, compliance remains strong. The Travel program is constantly looking at new technologies to receive traveler data in advance of arrival at a port of entry, which enhances security and allows for better facilitation of the entry process into the United States. The program also has a strong outreach program through their public-facing websites: Know Before You Visit, Trusted Traveler Programs, For U.S. Citizens/Lawful Permanent Residents, Electronic System for Travel Authorization, Electronic Visa Update System, and Visa Waiver Program.

Availability of maritime navigation aids (USCG): This measure indicates the hours that short-range federal Aids to Navigation (ATON) are available as defined by the International Association of Marine Aids to Navigation and Lighthouse Authorities in December 2004. As the Road Signs of the Sea, maritime navigational aids ensure safety of maritime traffic and the safe passage of trillions of dollars of economic activity. In FY 2021, this measure achieved 96.2 percent which is consistent with recent results but slightly down compared to previous years. While ATON damage from hurricanes over the past several years has, for the most part, been addressed, resource availability continues to impact program success. The USCG continues to explore solutions to mitigate this risk.



Amount of cyber-financial crime loss prevented (in billions) (USSS): This measure is an estimate of the direct dollar loss to the public prevented due to cyber-financial investigations by the USSS and their law enforcement partners. The dollar loss prevented is based on the estimated amount of financial loss that would have occurred had the offender not been identified nor the criminal enterprise interrupted. Since the onset of the global pandemic, USSS has dedicated significant resources to investigating crimes targeting pandemic relief funds. In FY 2021, this measure achieved 2.3 billion in loss prevention. A number of cyber financial investigations related to COVID-19 fraud are still going through the judicial process and have yet to be counted in official statistics. Case closures and judicial processing remain slow due to continued pandemic effects.



Looking Forward

A few near-term efforts to advance the Department's capability and capacity in these areas are provided below.

- **International trade and travel:** Rapidly growing and diversifying flows of trade and travel present ongoing challenges to balancing security while meeting services for legitimate trade partners and the traveling public. DHS has leveraged the response to COVID-19 to improve operations, execute targeting rules and procedures at all ports of entry. CBP collaborated with partners to monitor international travel rules, tracked affected travelers, denied entry to those prohibited, provided contact-tracing information as needed, expedited medical personnel and equipment through the clearance process, and increased personnel with medical training. CBP operated eBadge with TSA and commercial service providers to significantly reduce vetting and processing time for badges, credentials, and regular background checks on credentialed workers at a growing number of airports. Looking forward, the department plans to expand current eBadge operations through the development of the Trusted Employer Program, to more airports with improvements in vetting, while developing an eBadge App that allows direct employer completion of employee applications for access to a Travel Operations facility. DHS also plans to establish a Counter-Intelligence Watchlist, or

DID YOU KNOW?

In FY 2021, the Secret Service hosted a virtual Cyber Incident Response Simulation (CIRS) with business executives, federal law enforcement, and public sector officials. The simulation focused on Ransomware, Business Email Compromise, Managed Service Providers, and cryptocurrency. Trainings like these enhance planning, collaboration, and information sharing between private organizations and federal law enforcement agencies.

similar process, to centralize and de-conflict data in support of comprehensive interagency strategies to ensure a whole-of-government approach to Counter-intelligence operations.

- <u>Combating cybercrime and safeguarding the Nation's financial system:</u> Cybercrime continues to be the fastest-growing mode for crime occurring across the country and touching a large share of the U.S. population. As such, several DHS Components have efforts underway with plans to address cybercrime or plans to address organizations using cybercrime to support other illegal activities.
  - USSS recently began to implement a policy establishing a Cyber Technical Agent career progression and developing a plan to modernize the Electronic Crimes Task Force to strengthen and expand the existing network of task forces to address growing cybercrime threats as well as expand the Global Investigative Operations Center. To support the expansion of knowledge in cybercrime, there are ongoing efforts to train fellow law enforcement stakeholders on detecting and combatting cybercrimes.
  - ICE continues to develop new tools (e.g., enhanced facial recognition, web scraping, field-deployable DNA testing) used to counter transnational criminal organizations' illicit activities related to financial crimes.
  - CBP continues efforts against online trafficking in counterfeit and pirated goods as well as exploring expanded use of verifiable digital trademarks.
  - USCG plans include enhancing the service's cyber networks security, pursuing new efforts on offensive cyber capabilities, and helping safeguard the maritime domain and related infrastructure.
  - TSA issued new directives that will increase in response to the Colonial Pipeline cybersecurity attack in May, requiring owners and operators of TSA-designated critical pipelines that transport hazardous liquids and natural gas to implement a number of urgently needed protections against cyber intrusions.

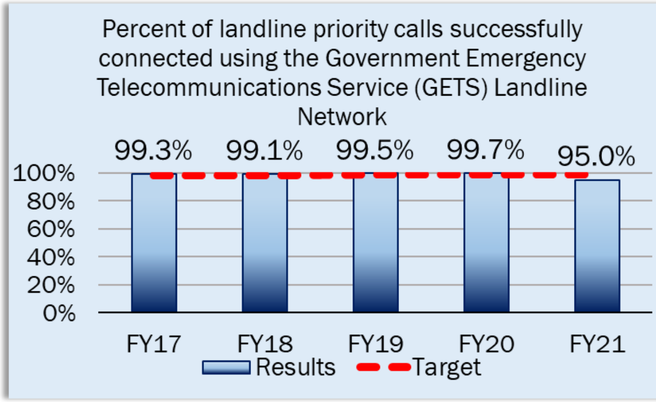
DID YOU KNOW?

The Secret Service established its first overseas Electronic Crimes Task Force (ECTF) in Rome, Italy in 2009. This network of public private partnerships is dedicated to fight high tech, computer based crimes.

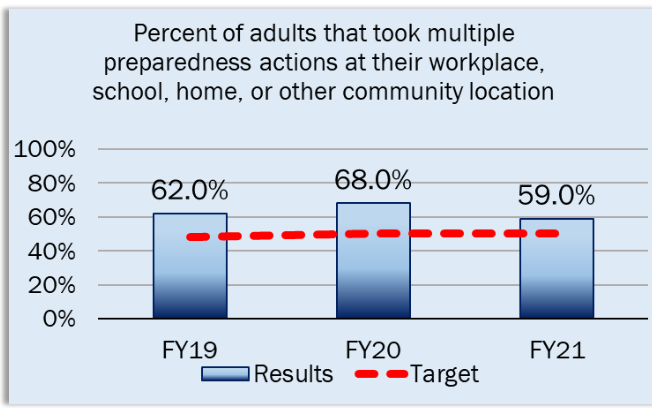
<u>Goal 5: Strengthen Preparedness and Resilience</u>

Preparedness is a shared responsibility across federal, state, local, tribal, and territorial governments; the private sector; non-governmental organizations; and the American people. Some incidents will overwhelm the capabilities of communities, so the Federal Government must remain capable of helping them to respond to natural and man-made disasters. Following disasters, the Federal Government must ensure an ability to direct resources needed to support local communities' immediate response and long-term recovery assistance. The United States can effectively manage emergencies and mitigate the harm to American communities by thoroughly preparing local communities, rapidly responding during crises, and supporting recovery.

The following measures highlight some of our efforts to strengthen preparedness and resilience. Up to five years of data is presented if available.



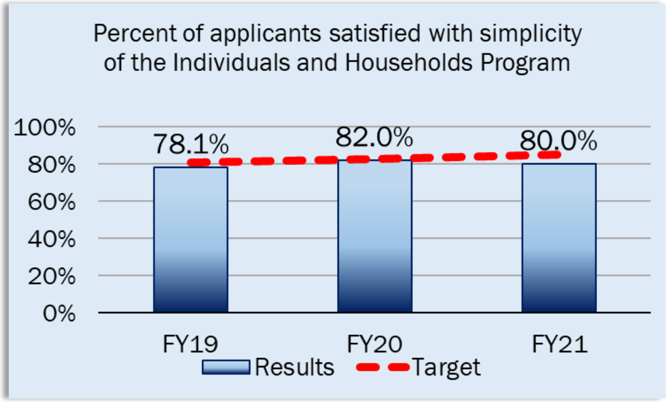
Percent of landline priority calls successfully connected using the Government Emergency Telecommunications Service (GETS) Landline Network (CISA): By ensuring the connection of calls for first responders and government officials during a disaster, DHS contributes to a national effective emergency response effort. This measure gauges the reliability and effectiveness of the Government Emergency Telecommunications Service (GETS) to ensure accessibility by authorized users at any time, most commonly to ensure call completion during times of network congestion caused by all-hazard scenarios, including terrorist attacks or natural disasters (e.g., hurricane or earthquake). In FY 2021, this measure achieved 95 percent.



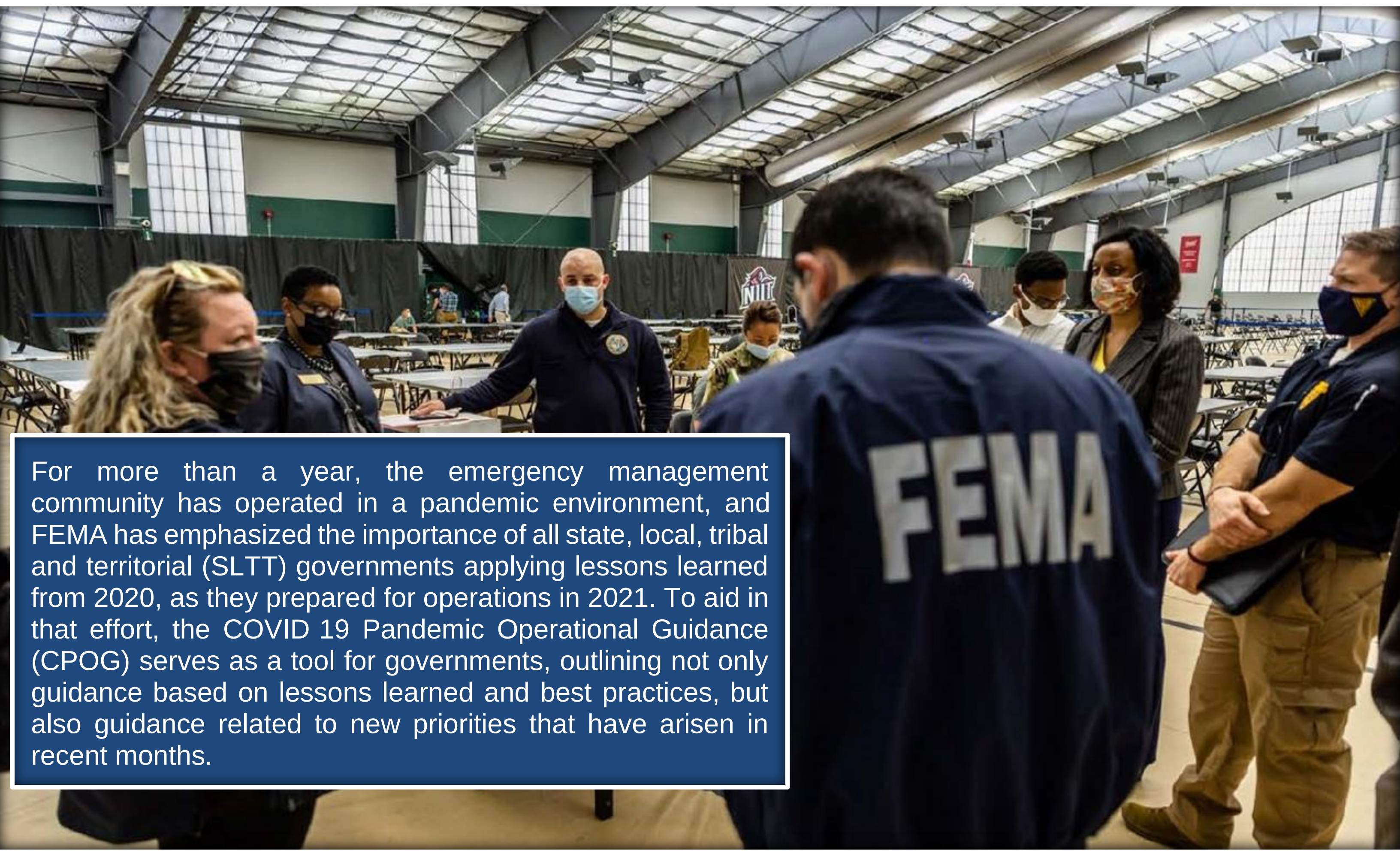
Percent of adults that took multiple preparedness actions at their workplace, school, home, or other community location (FEMA): This is the third year this measure is reporting results. This measure serves as an indicator of the whole community effort to educate the public regarding their risks, developing methods to mitigate the impacts of those risks, and helping people understand how to prepare to meet disasters when they arrive. Programs and initiatives such as preparedness actions, capacity building, youth preparedness, citizen responder, financial resilience, and messaging help ensure the nation has a variety of tools and resources to help build a culture of preparedness. Results are compiled from surveys distributed to households following such activities. In FY 2021, this measure achieved 59 percent.

DID YOU KNOW?

In support of the COVID 19 vaccination effort, FEMA Voluntary Agency Liaisons (VALs) coordinated with 15 voluntary agency partners to schedule 2,031 clinical and non clinical volunteers at vaccination sites across the Nation.

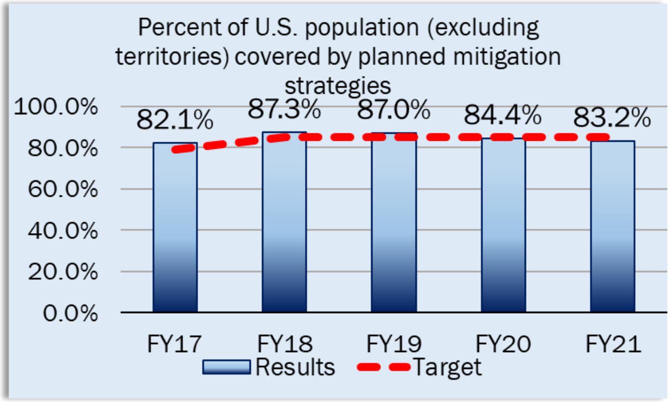


Percent of applicants satisfied with simplicity of the Individuals and Households Program (FEMA): This is the third year for this measure reporting results. This measure supports the vision to streamline the disaster survivor experience by using surveys to assess the disaster survivors' overall satisfaction of Individuals and Households Program's (IHP) assistance and services. The program collects survivors' impressions of their interactions with IHP using standard surveys, administered by telephone, at three touchpoints of their experience with FEMA. In FY 2021, FEMA deployed the first email survey to Individual Assistance disaster survivors. FEMA will continue email surveys in FY 2022 and expects more responses on disaster survivors' satisfaction. FEMA continues a Holistic Survivor Feedback Strategy with a vision of putting survivors at the center of how FEMA makes decisions. While FEMA did not meet its target of 85 percent, these results did not hinder FEMA's ability to execute its mission. In FY 2021, this measure achieved 80 percent.

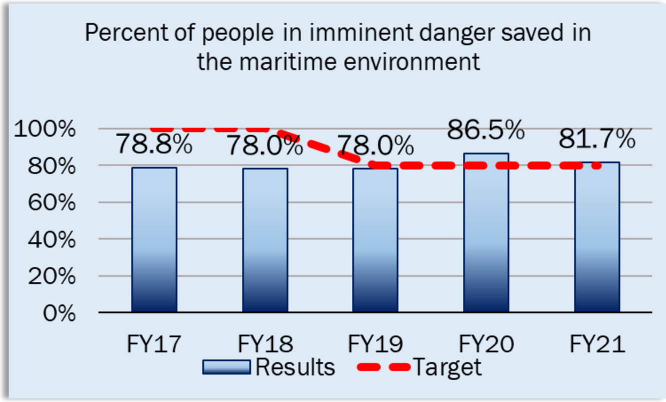


For more than a year, the emergency management community has operated in a pandemic environment, and FEMA has emphasized the importance of all state, local, tribal and territorial (SLTT) governments applying lessons learned from 2020, as they prepared for operations in 2021. To aid in that effort, the COVID 19 Pandemic Operational Guidance (CPOG) serves as a tool for governments, outlining not only guidance based on lessons learned and best practices, but also guidance related to new priorities that have arisen in recent months.

Percent of U.S. population (excluding territories) covered by planned mitigation strategies (FEMA): This measure reports the percent of U.S. population (excluding territories) covered by approved or approvable local Hazard Mitigation Plans. During FY 2021, providing technical assistance to communities was difficult as the engagement needed could not always be performed due to COVID. Additionally, community resources needed to coordinate and execute plan development activities were diverted in support of the COVID response. In FY 2021, this measure achieved 83.2 percent which is below target. In FY 2022, FEMA plans to increase technical assistance to assist communities with producing higher quality risk assessments.



Percent of people in imminent danger saved in the maritime environment (USCG): This is a measure of the percent of people who were in imminent danger on the oceans and other waterways and whose lives were saved by the USCG. The number of lives lost before and after the USCG is notified and the number of persons missing at the end of search operations are factored into this result. In FY 2021, the USCG achieved 81.7 percent which is below target but is the



second highest result in the last five years. In FY 2020, the measure was adjusted to only include cases with lives at risk after the USCG was notified. In addition, COVID-19 may have contributed to the increase as some Districts reported case increases due to a drop in aid from other government agencies, commercial providers, and good Samaritans requiring the USCG to prioritize their own response efforts.

Looking Forward

A few near-term efforts to advance the Department's capability and capacity in these areas are provided below.

- <u>**Emergency Communications:**</u> Emergency Communications support the deployment of interoperable communications systems for federal, state, local, and tribal government agencies. However, their stakeholders have limited resources and budgets, inhibiting investment in assets to improve capability and capacity. Events and incidents are becoming increasingly complex, necessitating additional planning for incident response and coordination. The inadequate number of engagements with the expanded stakeholder community negatively impacts the ability to identify gaps and define requirements. Looking forward through a concerted effort with partners/stakeholders, Emergency Communications intends to define/develop priorities related to cyber risks to emergency communications and acquire additional funding and personnel to address these gaps. Emergency Communications can ensure a well-coordinated service by assessing current gaps and risks in incident communications. Plans are being made to also develop strategies for reaching expanded communities. Furthermore, plans for developing/ tailoring support for new stakeholders and analyzing existing governance structures are in progress to determine how to better support the expanded community.

DID YOU KNOW?

The Emergency Communications program supported Statewide Interoperability Coordinators that were indispensable in managing and mitigating COVID 19 telecommunications impacts to support a full telework environment during the unprecedented stress on communications networks nationwide.

- <u>**COVID-19 Implications:**</u> FEMA provided front-line support for the U.S. response to the pandemic through mass vaccination sites and providing coordination across the FEMA regions. The COVID-19 Pandemic Operational Guidance issued during the 2020 Hurricane Season, outlines how FEMA has adapted its response and recovery operations in a COVID-19 environment. At the same time, this guidance has other implications moving forward, for example, providing a workforce mix for any future scenarios similar to the response during this pandemic. The Pandemic Operational Guidance also helps to shape a shared understanding among local and regional emergency managers and FEMA about roles and expectations in such deployments. The pandemic impacts current and future requirements for response and recovery logistics and products, such as determining eligible work and costs for non-congregate sheltering in response to a Presidentially declared emergency or major disaster, processing grants, how to manage communications, and training during such responses, and employing tools requiring limited on-site presence—such as satellite imagery—to assess damage. COVID-19 response will continue for some time, and will have to become increasingly integrated with current operational concepts such as the Community Lifelines program and developments in the future structure of the Incident Management Workforce.

- **USCG Search and Rescue:** Search and Rescue (SAR) is one of the USCG's oldest missions. Minimizing the loss of life, injury, or property damage by rendering aid in the maritime environment to persons in distress and property has always stood as a USCG priority. USCG SAR response involves multi-mission stations, cutters, aircraft, and boats linked by communications networks. Managing the SAR program has become increasingly challenging due to a decreasing number of designated SAR professionals at key billets throughout the USCG. As such, the USCG continues to direct time and energy to advocate for improvements in the National SAR System, Marine Environmental Response, and Emergency Management programs, to strengthen the USCG's ability to lead in crisis. The SAR mission maintains a high degree of focus on the progression of search and rescue tools for locating people in distress, and the potential SAR response challenges in the polar regions as maritime and aeronautical traffic increases.

Agency Priority Goals

Please see our Annual Performance Report (APR) for an update on our FY 2022-2023 APGs. The APR will be available in February 2022 in conjunction with the FY 2023 Budget Submission. The APR will be available at the following link: https://www.dhs.gov/performance-financial-reports.

Financial Overview

The Department's principal financial statements — Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources, Statements of Custodial Activity, and notes to the principal financial statements — are prepared to report the financial position, financial condition, and results of operations of the Department, pursuant to the requirements of 31 U.S.C § 3515(b). The statements are prepared from records of Federal entities in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

This section is presented as an analysis of the principal financial statements. Included in this analysis is a year-over-year summary of key financial balances, nature of significant changes, and highlights of key financial events to assist readers in establishing the relevance of the financial statements to the operations of DHS. The majority of noteworthy changes in financial balances are primarily due to COVID-19 related program activity described below (see Note 31, COVID-19 Activity, for additional information).

COVID-19 Activity

In response to the national public health and economic threats, serious and widespread health issues and economic disruptions caused by COVID-19, DHS has continued its efforts in preparedness and readiness to facilitate a rapid, whole-of-government response in confronting COVID-19, keeping Americans safe, helping detect and slow the spread of the virus, and making the vaccine available to as many people as possible. Functioning critical infrastructure is particularly important during the COVID-19 response for both public health and safety as well as community well-being. Certain critical infrastructure industries have a special responsibility to continue operations during these unprecedented times. To confront these challenges, DHS received and executed significant funding from the *American Rescue Plan Act* (ARPA), 2021 and the *Consolidated Appropriations Act* (CAA), 2021 to support our essential missions and to respond to our nations' needs, including reimbursing individuals and families for COVID-related funeral expenses, extending the lost wages assistance, and administering vaccine efforts and activities. FEMA continued to work with the state and territorial governments (including the District of Columbia) that chose to participate in the Lost Wages Assistance Program, which provided up to six weeks of assistance to eligible individual claimants that were unemployed or partially underemployed due to COVID-19 disruptions. In FY 2021, FEMA provided financial assistance to individuals and families with funeral expenses for deceased individuals attributable to COVID-19 related deaths. To combat the COVID-19 crisis, the Department focused on vaccine efforts, which included providing test kits to frontline personnel, airport passenger screening, and expanding access to vaccines and support vaccine distribution.

In FY 2020, FEMA activated the National Response Coordination Center (NRCC) in the wake of the Coronavirus outbreak in the United States and continues its operations in FY 2021. The NRCC is a multi-agency center that coordinates the overall federal support for major incidents and emergencies. NRCC also provides a clearinghouse of resources and policies for local and state governments in impacted regions. CISA continues to monitor the evolving virus closely, taking part in interagency and industry coordination calls, and working with critical infrastructure partners to prepare for possible disruptions to critical infrastructure. The Department also took action in furtherance of the public health interests advanced by enforcing the presidential proclamations at and between air, land, and seaports of entry, alerting the Centers for Disease Control and Prevention (CDC) partners to any individuals who require enhanced health screening.

Additionally, the DHS workforce protection command center works to ensure that protective procedures are in place for the front-line workforce, who may regularly encounter potential disease carriers, and is in close coordination with federal health partners and component health and safety officials.

Financial Position

The Department prepares its Balance Sheets, Statements of Net Cost, and Statements of Changes in Net Position on an accrual basis, in accordance with U.S. generally accepted accounting principles; meaning that economic events are recorded as they occur, regardless of when cash is received or disbursed.

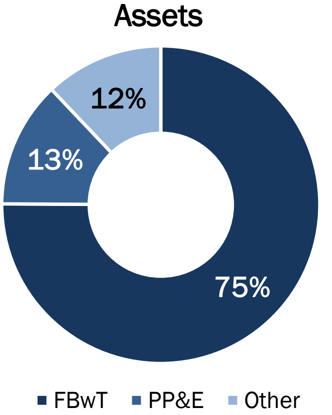
The Balance Sheet presents the resources owned or managed by the Department that have future economic benefits (assets) and the amounts owed by DHS that will require future payments (liabilities). The difference between the Department's assets and liabilities is the residual amount retained by DHS (net position) that is available for future programs and capital investments.

Financial Position ($ in millions)	FY 2021	FY 2020	$ Change	% Change
Fund Balance with Treasury	$ 163,044	$ 131,013	$ 32,031	24%▲
General Property, Plant, and Equipment, Net	27,893	26,561	1,332	5%▲
Other Assets	26,201	25,435	766	3%▲
Total Assets	**217,138**	**183,009**	**34,129**	19%▲
Federal Employee and Veteran Benefits Payable	75,570	71,835	3,735	5%▲
Debt	20,618	20,596	22	<1%▲
Accounts Payable	5,606	5,408	198	4%▲
Insurance Liabilities	3,436	2,830	606	21%▲
Other Liabilities	25,340	32,762	(7,422)	-23%▼
Total Liabilities	**130,570**	**133,431**	**(2,861)**	-2%▼
Total Net Position	86,568	49,578	36,990	75%▲
Total Liabilities and Net Position	**$ 217,138**	**$ 183,009**	**$ 34,129**	19%▲

Results of Operations ($ in millions)	FY 2021	FY 2020	$ Change	% Change
Gross Cost	$ 104,688	$ 127,215	$ (22,527)	-18%▼
Less: Revenue Earned	(14,718)	(14,874)	156	-1%▼
Net Cost Before Gains and Losses on Assumption Changes	**89,970**	**112,341**	**(22,371)**	-20%▼
(Gains) and Losses on Assumption Changes	1,573	3,061	(1,488)	-49%▼
Total Net Cost	**$ 91,543**	**$ 115,402**	**$ (23,859)**	-21%▼

Assets – What We Own and Manage

Assets represent amounts owned or managed by the Department that can be used to accomplish its mission.



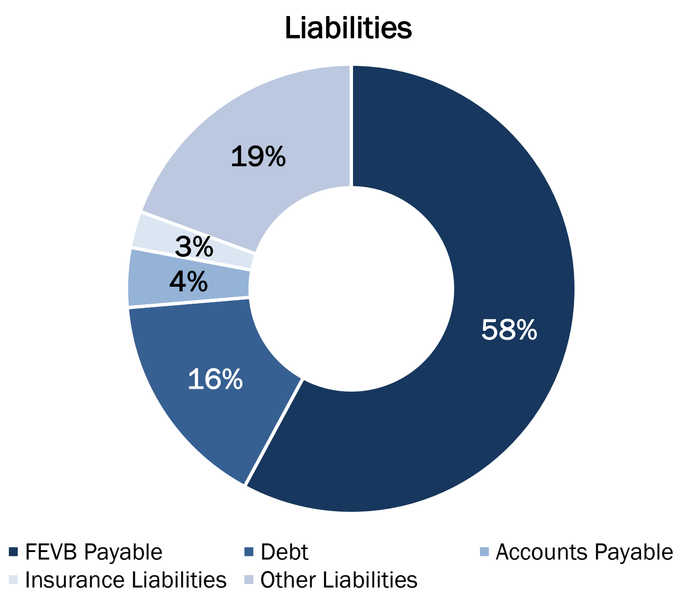
The Department's largest asset is Fund Balance with Treasury (FBwT), which consists primarily of appropriated, revolving, trust, deposit, receipt, and special funds remaining at the end of the fiscal year.

Property, Plant, and Equipment (PP&E) is the second largest asset, and include buildings and facilities, vessels, aircraft, construction in progress, and other equipment. In acquiring these assets, the Department either spent resources or incurred a liability to make payment at a future date; however, because these assets should provide future benefits to help accomplish the DHS mission, the Department reports these items as assets rather than expenses.

Other Assets includes items such as investments, accounts receivable, cash and other monetary assets, taxes, duties and trade receivables, direct loans, and inventory and related property.

As of September 30, 2021, the Department had $217 billion in assets, representing a $34 billion increase from FY 2020. The majority of this change is due to an increase in Fund Balance with Treasury resulting from additional supplemental appropriations received under the American Rescue Plan (see Note 31 in the Financial Information section).

Liabilities – What We Owe



Liabilities are the amounts owed to the public or other federal agencies for goods and services provided but not yet paid for; to DHS employees for wages and future benefits; and for other liabilities.

The Department's largest liability is for Federal Employee and Veteran Benefits (FEVB) Payable. The Department owes these amounts to current and past civilian and military personnel for pension and other post-employment benefits. The liability also includes medical costs for approved workers' compensation cases. For more information, see Note 16 in the Financial Information section. This liability is not covered by current budgetary resources, and the Department will use future appropriations to cover these liabilities (see Note 14 in the Financial Information section).

Debt is the second largest liability, and results from Treasury loans to fund FEMA's National Flood Insurance Program (NFIP) and Disaster Assistance Direct Loan Program. Given the current premium rate structure, FEMA will not be able to generate sufficient resources from premiums to fully pay its debt. This is discussed further in Note 15 in the Financial Information section.

Accounts Payable consists primarily of amounts owed for goods, services, or capitalized assets received, progress on contract performance by others, and other expenses due to other entities.

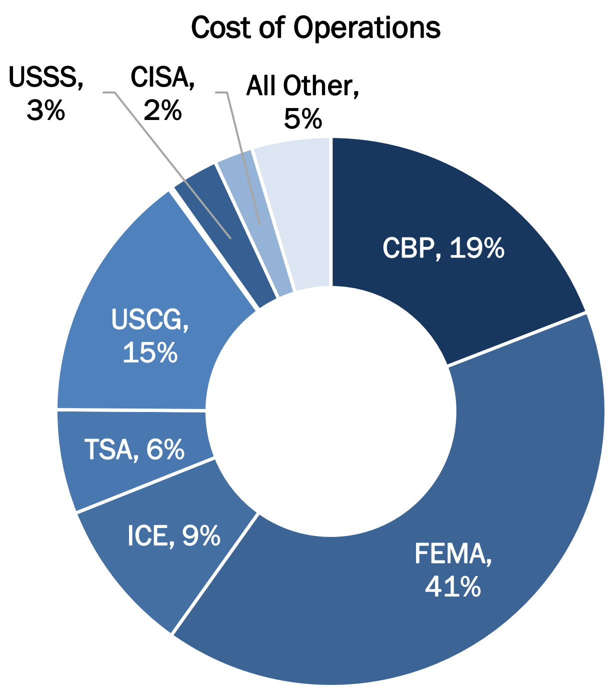
Insurance Liabilities are primarily the result of the Department's sale or continuation-in-force of flood insurance policies within the NFIP, which is managed by FEMA.

Other Liabilities include amounts owed to other federal agencies and the public for goods and services received by the Department, amounts received by the Department for goods or services that have not been fully rendered, unpaid wages and benefits for current DHS employees, and amounts due to the Treasury's general fund, environmental liabilities, refunds and drawbacks, and other.

As of September 30, 2021, the Department reported approximately $131 billion in total liabilities. Total liabilities decreased by $2.8 billion in FY 2021 mostly due to FEMA's payments on Lost Wages Assistance Program which is offset primarily by increases in USCG Actuarial Pensions Liability and CBP Custodial Liability on collection of duties.

Net Position

Net position represents the accumulation of revenue, expenses, budgetary, and other financing sources since inception, as represented by an agency's balances in unexpended appropriations and cumulative results of operations on the Statement of Changes in Net Position. Financing sources increase net position and include, but are not limited to, appropriations, user fees, and excise taxes. The net costs discussed in the section below as well as transfers to other agencies decrease net position. The Department's total net position is $87 billion. Total net position increased $37 billion from FY 2020, in large part because of the additional supplemental appropriation received by FEMA for COVID-19.



Results of Operations

The Department presents net costs by operational Components which carry out DHS's major mission activities, with the remaining support Components representing "All Other."

Net cost of operations, before gains and losses, represents the difference between the costs incurred and revenue earned by DHS programs. The Department's net cost of operations, before gains and losses, was $90 billion in FY 2021, which is a decrease of $22 billion from the prior year. This is mainly due to the large decrease of disaster related costs associated with disaster responses to COVID-19, hurricanes, and wildfires FEMA incurred in FY 2021 compared to FY 2020.

During FY 2021, the Department earned approximately $14.7 billion in exchange revenue. Exchange revenue arises from transactions in which the Department and the other party receive value and that are directly related to departmental operations. The Department also collects non-exchange duties, taxes, and fee revenue on behalf of the Federal Government. This non-exchange revenue is presented in the Statements of Custodial Activity or Statements of Changes in Net Position, rather than the Statements of Net Cost.

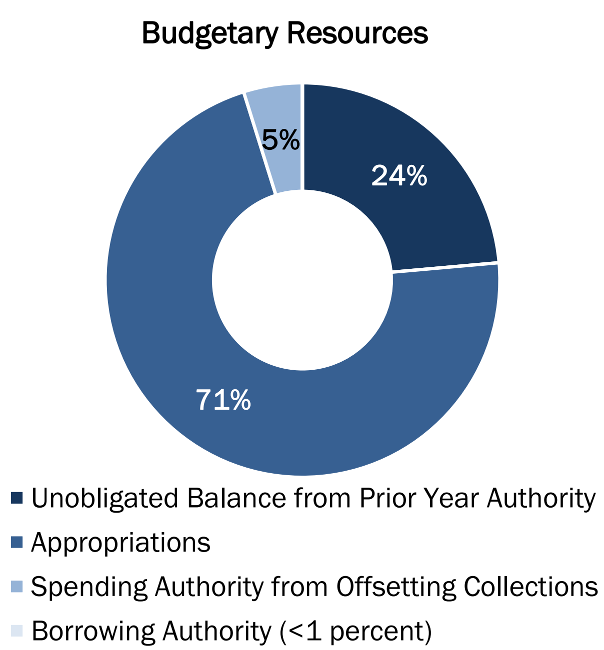
Budgetary Resources

The Statement of Budgetary Resources is prepared on a combined basis, rather than a consolidated basis, and provides information about how budgetary resources were made available as well as their status at the end of the period. Budgetary accounting principles require recognition of the obligation of funds according to legal requirements, which in many cases happens prior to the transaction under accrual basis. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds. The budget represents our plan for efficiently and effectively achieving the strategic objectives to carry out our mission and to ensure that the Department manages its operations within the appropriated amounts using budgetary controls.

Sources of Funds ($ in millions)	FY 2021	FY 2020	$ Change	% Change
Unobligated Balance from Prior Year Budget Authority, Net	$ 46,955	$ 51,848	$ (4,893)	-9%▼
Appropriations	142,442	133,025	9,417	7%▲
Spending Authority from Offsetting Collections	9,560	11,732	(2,172)	-19%▼
Borrowing Authority	32	33	(1)	-3%▼
Total Budgetary Resources	**$ 198,989**	**$ 196,638**	**$ 2,351**	1%▲

The Department's budgetary resources, both discretionary and mandatory, were $199 billion for FY 2021. The authority was derived from $47 billion in authority carried forward from FY 2020, appropriations of $142 billion, approximately $10 billion in collections, and $32 million in borrowing authority. Budgetary resources increased approximately $2 billion from FY 2020. This is mainly due to additional supplemental appropriation for COVID-19.

Of the total budget authority available, the Department incurred a total of $142 billion in obligations from salaries and benefits, purchase orders placed, contracts awarded, or similar transactions.



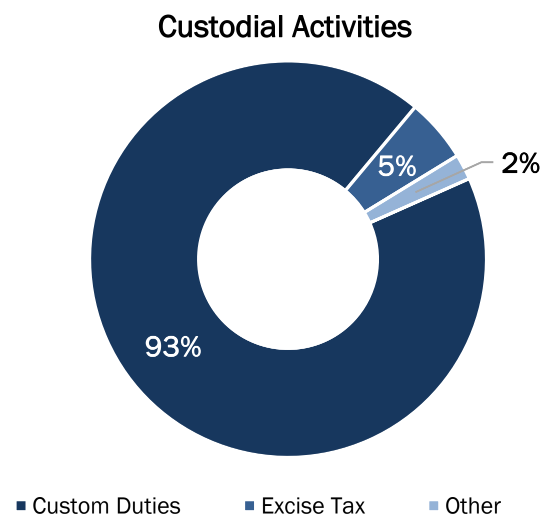
Custodial Activities

The Statement of Custodial Activity is prepared using the modified cash basis. With this method, revenue from cash collections is reported separately from receivable accruals, and cash disbursements are reported separately from payable accruals.

Cash Collections ($ in millions)	FY 2021	FY 2020	$ Change	% Change
Duties	$ 85,466	$ 74,401	$ 11,065	15%▲
Excise Taxes	4,773	3,967	806	20%▲
Other	1,905	1,706	199	12%▲
Total Cash Collections	**$ 92,144**	**$ 80,074**	**$ 12,070**	15%▲

Custodial activity includes the revenue collected by the Department on behalf of others, and the disposition of that revenue to the recipient entities. Non-exchange revenue is either retained by the Department to further its mission or transferred to Treasury's general fund and other federal agencies. The Department's total cash collections is $92 billion, which is a $12 billion increase from FY 2020 mainly due to an increase in import activity and collections of customs duties.

Custom duties collected by CBP account for 93% of total cash collections. The remaining 7% is comprised of excise taxes, user fees, and various other fees.



Stewardship Information

Stewardship investments are substantial investments made by the Federal Government for the benefit of the Nation. When incurred, stewardship investments are treated as expenses in calculating net cost, but due to materiality, they are separately reported to highlight the extent of investments that are made for long-term benefit. The Department's expenditures (including carryover funds expended in FY 2021) in human capital, research and development, and non-federal physical property are shown below.

Investments in Research and Development

Investments in research and development represent expenses incurred to support the search for new or refined knowledge and ideas. The intent of the investment is to apply or use such knowledge to improve and develop new products and processes with the expectation of maintaining or increasing national productive capacity or yielding other future benefits. CWMD, S&T, and USCG have made significant investments in research and development this fiscal year (in millions):

Components	FY 2021	FY 2020
CWMD	$ 70	$ 51
S&T	827	827
USCG	8	7
Total Research & Development	$ 905	$ 885

Investments in Human Capital

Investments in human capital include expenses incurred for programs to educate and train first responders. These programs are intended to increase or maintain national productive capacity as evidenced by the number of responders trained over the course of the programs. FEMA and S&T have made significant investments in human capital (in millions):

Components	FY 2021	FY 2020
FEMA	$ 86	$ 86
S&T	3	3
Total Human Capital	$ 89	$ 89

Investments in Non-Federal Physical Property

Investments in non-federal physical property are expenses included in the calculation of net cost incurred by the reporting entity for the purchase, construction, or major renovation of physical property owned by state and local governments, which includes security enhancements to airports. TSA has made significant investments in non-federal physical property (in millions):

Components	FY 2021	FY 2020
TSA	$ 188	$ 191
Total Non-Federal Physical Property	$ 188	$ 191

Other Key Regulatory Requirements

For a discussion on DHS's compliance with the Prompt Payment Act, Debt Collection Improvement Act of 1996, and Biennial Review of User Fees, see the Other Information section.

Secretary's Assurance Statement

November 12, 2021

The Department of Homeland Security is responsible for meeting the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) to establish and maintain effective internal controls, inclusive of financial management systems, that protect the integrity of federal programs. These objectives are satisfied by managing risks and maintaining effective internal controls in three areas: 1) effectiveness and efficiency of operations; 2) reliability of reporting; and 3) compliance with applicable laws and regulations. The Department conducted its assessment of risk and internal controls in accordance with the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Department can provide reasonable assurance that internal controls over operations, internal controls over reporting, and internal controls over compliance were operating effectively as of September 30, 2021, except for the disclosures noted in the subsequent sections.

Pursuant to the *DHS Financial Accountability Act* (FAA), the Department is required to obtain an opinion on its internal controls over financial reporting. The Department conducted its assessment of the effectiveness of internal controls over financial reporting in accordance with OMB Circular A-123 and Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*. Based on the results of this assessment, the Department can provide reasonable assurance that its internal controls over financial reporting was designed and operating effectively, except for aspects of Financial Reporting and Information Technology Controls and Information Systems, where material weakness areas were identified and remediation is in process.

The *Federal Financial Management Improvement Act of 1996* (FFMIA) requires agencies to implement and maintain financial management systems that substantially comply with Federal financial management system requirements, Federal accounting standards, and United States Standard General Ledger reporting at the transaction level. The area of material weaknesses specifically related to Information Technology Controls and Information Systems affects the Department's ability to substantially comply with financial management system requirements. In addition, as a result of numerous Component agencies' financial management system limitations, the Department does not fully comply with certain government-wide accounting and reporting requirements. Therefore, the Department is reporting non-compliance with FFMIA and Section 4 of FMFIA. To address this non-compliance, the Department has launched a multi-year financial systems modernization program.

As a result of the assessments conducted, the Department continues to enhance its internal controls and financial management program. For noted areas of weakness, the Department is planning for remediation and additional improvements going forward, as highlighted in the *Management Assurances* section of the Agency Financial Report.

Sincerely,

Alejandro N Mayorkas

Alejandro N. Mayorkas
Secretary of Homeland Security

Management's Report on Internal Controls Over Financial Reporting

November 12, 2021

Mr. Joseph V. Cuffari
Inspector General
Department of Homeland
Security Washington, DC

Dear Inspector General Cuffari:

The United States Department of Homeland Security (DHS) internal controls over financial reporting constitutes a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with the United States' generally accepted accounting principles. An organization's internal controls over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the United States' generally accepted accounting principles, and that receipts and expenditures of the organization are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the organization's assets that could have a material effect on the financial statements.

DHS is responsible for designing, implementing, and maintaining effective internal controls over financial reporting. Management assessed the effectiveness of DHS's internal controls over financial reporting as of September 30, 2021, based on criteria established in the *Standards for Internal Controls in the Federal Government* (GAO-14-704G) issued by the Comptroller General of the United States. Based on that assessment, management concluded that, as of September 30, 2021, DHS's internal controls over financial reporting are effective except for areas of material weaknesses in Financial Reporting and Information Technology Controls and Information Systems. Specifically:

1. *Financial Reporting:* Ineffective monitoring of reports used in financial reporting controls, ineffective service provider monitoring, and other conditions.
2. *Information Technology Controls and Information Systems:* Ineffective controls in financial management systems, including those performed by service organizations, and insufficient design of controls over information derived from systems.

Internal controls over financial reporting have inherent limitations. Internal controls over financial reporting constitutes a process that involves human diligence and compliance and is subject to human error. Internal controls over financial reporting also can be circumvented by collusion or improper management override. Because of their inherent limitations, internal controls over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

DHS has made progress in improving its internal controls and financial management program. Management commits to implementing corrective actions to resolve the remaining areas of material weakness.

Best Regards,

Alejandro Mayorkas
Secretary

Stacy Marcott
Acting Chief Financial Officer

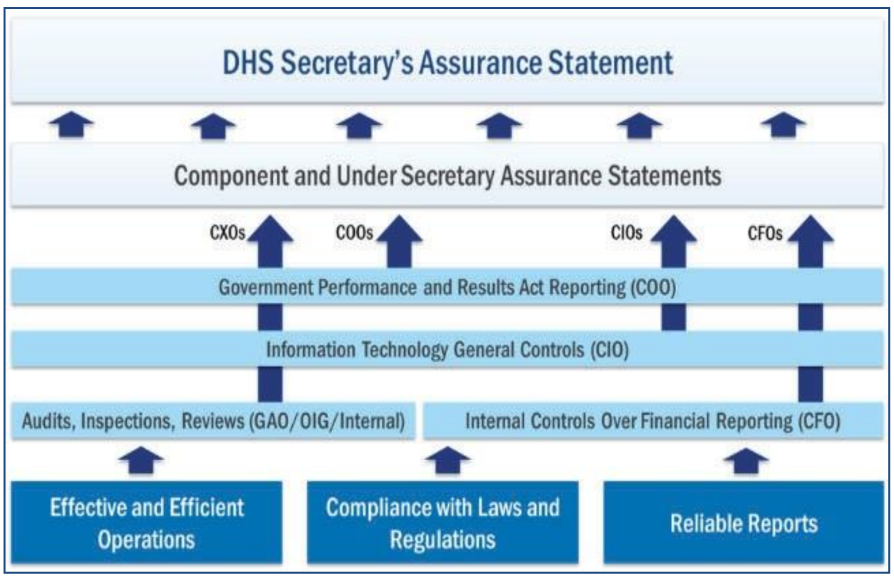
Management Assurances

DHS management is responsible for establishing, maintaining, and assessing internal controls to provide reasonable assurance that the objectives of the *Federal Managers' Financial Integrity Act (FMFIA) of 1982* (31 United States Code 3512, Sections 2 and 4) and the *Federal Financial Management Improvement Act of 1996* (P.L. 104-208) were achieved. In addition, the *DHS Financial Accountability Act* (P.L. 108-330) requires a separate management assertion and an audit opinion on the Department's internal control over financial reporting.

The FMFIA requires GAO to prescribe standards for internal control in the Federal Government, more commonly known as the Green Book. These standards provide the internal control framework and criteria federal managers must use in designing, implementing, and operating an effective system of internal control. The Green Book defines internal control as a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity are achieved. These objectives and related risks can be broadly classified into one or more of the following categories:

- Effectiveness and efficiency of operations,
- Compliance with applicable laws and regulations, and
- Reliability of reporting for internal and external use.

FMFIA also requires OMB, in consultation with GAO, to establish guidelines for agencies to evaluate their systems of internal control to determine FMFIA compliance. OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, provides implementation guidance to federal managers on improving the accountability and effectiveness of federal programs and operations by identifying and managing risks and establishing requirements to assess, correct, and report on the effectiveness of internal controls. FMFIA also requires the Statement of Assurance to include assurance on whether the agency's financial management systems substantially comply with government-wide requirements. The financial management systems requirements are directed by Section 803(a) of the FFMIA and Appendix D to OMB Circular A-123, Compliance with the *Federal Financial Management Improvement Act of 1996*.



In accordance with OMB Circular A-123, the Department performs assessments over the effectiveness of its internal controls. The results of these assessments provide management with an understanding of the effectiveness and efficiency of programmatic operations, reliability of reporting, and compliance with laws and regulations. Per OMB Circular A-123, management gathered information from various sources including management-initiated internal control assessments, program reviews, and evaluations. Management also considered results of reviews, audits, inspections, and investigations performed by the Department's OIG and GAO. Using available information, each Component performs an analysis on the pervasiveness and materiality over any identified deficiencies to determine their impact and uses the result as the basis for the respective Component assurance statement signed by the Component Head. The Secretary provides assurances over the Department's internal controls in the annual assurance statement considering the state of internal controls at each Component.

DHS is building on the enterprise risk management framework per OMB Circular A-123 and has established a Department-wide Enterprise Risk Management (ERM) working group to facilitate and promote Component development and maturation of ERM capability. DHS Components are at different stages of ERM maturity and some Components have begun embedding the ERM framework into their statement of assurance process. The Department will continue to mature in ERM capability and integrate its internal controls, as appropriate, and will continue to update the Department's risk profile annually.

Department of Homeland Security Financial Accountability Act (DHS FAA)

Pursuant to the DHS FAA, the Department must obtain an opinion over internal control over financial reporting. Annually, the Deputy Secretary issues a memorandum to Component Heads on audit results and approach, asking senior leaders across the organization to fix long-standing issues and properly resource both remediation and testing efforts. Senior leaders across the organization emulate this top-down approach by committing to annual remediation goals and improving the internal control environment, validated through testing, and finally ensuring that proper resources are available to realize these plans. Senior leaders also track, monitor, and discuss progress against commitments throughout the year to ensure accomplishment of the overall objectives.

Using the GAO Green Book and OMB Circular A-123 as criteria, the Department's internal control over financial reporting methodology is a risk-based, continuous feedback approach centered around four phases: find, fix, test, and assert. Effectiveness of controls and status of each Component's implementation of the internal control strategy are communicated and reported to senior leaders using the Internal Control Maturity Model (ICMM). The ICMM is a five-tiered model that uses tests of design and effectiveness, quality of assessments, and timeliness and efficacy of remediation as primary drivers in demonstrating maturation of the control environment. The goal is to have most Components placed on the Standardized (third) tier, which informs leaders that quality internal control assessments are performed to validate that neither material weakness conditions exist, nor will there be audit surprises. This assessment and reporting strategy support sustainment of the financial statement opinion and eventual achievement of an opinion over internal control over financial reporting.

Areas of Material Weaknesses Resolution Status

In FY 2020, management reported two areas of material weaknesses: 1) financial reporting and 2) IT controls and system functionality. In FY 2021, DHS made significant improvements in remediating areas of material weaknesses and worked to resolve financial reporting deficiencies through targeted remediation. Refer to the tables below for areas contributing to the financial reporting and IT controls and information systems areas of material weakness along with appropriate corrective actions planned in FY 2022.

Table 1: Internal Control over Financial Reporting Deficiency Details and Corrective Actions – Financial Reporting

<table>
<tr><th rowspan="2">Area of Material Weakness</th><th>DHS Component(s)</th><th>Year Identified</th><th>Target Correction Date</th></tr>
<tr><td>All</td><td>FY 2003</td><td>FY 2022</td></tr>
<tr><td>Financial Reporting</td><td colspan="3">
Multiple deficiency areas exist that are attributed to the Financial Reporting area of material weakness, which include the following:

Information Used in Controls (Contributing Component(s): All)
<u>Deficiency Details</u>
Ineffective monitoring over information utilized in DHS internal control over financial reporting processes and control activities.
<u>Planned Corrective Actions</u>
DHS is in the process of implementing a multi-phased, risk-based approach and process for identifying and assessing Information Used in Controls.

Service Provider Monitoring (Contributing Component(s): All)
<u>Deficiency Details</u>
Process deficiencies related to monitoring of external service providers, to include 1) adequately assessing and responding to service provider introduced risks, and 2) obtaining and reviewing Service Organization Control (SOC) reports related to financial services.
<u>Planned Corrective Actions</u>
DHS continues to build and implement process improvements utilizing a risk-based management program to provide effective monitoring and oversight of service providers.

Other (Contributing Component(s): All)
<u>Deficiency Details</u>
Deficiencies aggregated to substantiate inclusion into this area of material weakness, including 1) journal entries, 2) funeral assistance grants accruals, 3) application controls, and 4) inability to record trading partner activity at the initiation of the transaction event due to system limitations
<u>Planned Corrective Actions</u>

Process improvements for journal entries will be developed, implemented, and assessed in accordance with remediation plans. In addition, USCG will be migrating to a new Oracle based financial system in FY 2022 that is planned to significantly reduce the volume and amount of manual journal entries processed by USCG going forward.
FEMA will strengthen internal controls to identify, analyze, and respond to material changes in programs that may impact financial reporting, including the recording of liabilities in accordance with Federal Financial Accounting Standards, as necessary.
For efforts associated with application controls, please refer to the IT Controls and Information Systems area of material weakness and corrective actions for more detail.
DHS is in the process of implementing G-Invoicing which is planned to reduce the risk of system limitations associated with federal trading partners going forward.

</td></tr>
</table>

Table 2: Internal Control over Financial Reporting Deficiency Details and Corrective Actions – IT Controls and Information Systems

<table>
<tr><th rowspan="2">Area of Material Weakness</th><th>DHS Component(s)</th><th>Year Identified</th><th>Target Correction Date</th></tr>
<tr><td>All</td><td>FY 2003</td><td>FY 2023</td></tr>
<tr><td>IT Controls and Information Systems</td><td colspan="3">Multiple deficiency areas exist that are attributed to the IT controls and system functionality area of material weakness, which include the following:

Financial System Requirements (Contributing Component(s): All)
<u>Deficiency Details</u>
The Federal Information Security Management Act (FISMA) mandates that federal agencies maintain IT security programs in accordance with OMB and National Institute of Standards and Technology guidance. The Department internal control assessment identified IT controls as a material weakness due to deficiencies surrounding general security and application controls. As a result of the noted deficiencies, the Department's financial systems are unable to fully comply with the FFMIA.
<u>Planned Corrective Actions</u>
Components will continue to implement the find, fix, test strategy in FY 2022. The IT Commitment Letters, signed by both the respective CFO and the Chief Information Officer (CIO) leadership, require each Component to commit to testing as well as provide commitment to passing results for each system and control in scope.
The DHS CFO, CIO, and Component leadership will support the Components in the design and implementation of internal controls in accordance with DHS policy requirements defined for CFO Designated Financial Systems.
System Functionality / Information Derived from Systems (Contributing Component(s): All)
<u>Deficiency Details</u>
Ineffective IT security control and inadequate application / functionality controls impact the ability for management to fully rely on system generated data and reports without putting the processes utilizing this information at risk. Currently, these deficiencies are directly associated with financial system requirement deficiencies.
<u>Planned Corrective Actions</u>
Components will continue to improve and enhance IT security, as noted above for Financial System Requirements. As IT security enhances reliability, DHS will also work to incorporate the find, fix, test strategy to gain coverage over application / functionality controls.
In FY 2022, in addition to fixing long-standing IT control weaknesses, DHS will continue to implement a risk-based strategy for identifying and testing IUC and/or information derived from systems. DHS will also establish an approach to assess the key functionality of systems that have sufficient IT security controls established.
Service Provider Monitoring (Contributing Component(s): All)
<u>Deficiency Details</u>
The Department did not maintain effective internal control related to service organizations, including the monitoring of Information Technology General Controls (ITGC) for external systems to ensure adequate reliance. DHS also identified weaknesses related to evaluating and documenting roles of service organizations, performing effective reviews of SOC reports, and addressing service provider risk in absence of SOC reports.
<u>Planned Corrective Actions</u>
For service provider monitoring controls, DHS continues to build improvements utilizing a risk-based management program to provide monitoring and oversight of service providers.
</td></tr>
</table>

Federal Financial Management Improvement Act (FFMIA)

FFMIA requires federal agencies to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger at the transaction level. A financial management system includes an agency's overall financial operation, reflecting the people, processes, and technology to capture, classify, summarize, and report data in a meaningful manner to support business decisions.

DHS assesses financial management systems annually for compliance with the requirements of Appendix D to OMB Circular A-123 and other federal financial system requirements. In addition, available information from audit reports and other relevant and appropriate sources, such as FISMA compliance activities, is reviewed to determine whether DHS financial management systems substantially comply with FFMIA. Improvements and ongoing efforts to strengthen financial management systems are considered as well as the impact of instances of non-compliance on overall financial management system performance.

Based on the results of the overall assessment, the IT Controls and Information Systems area of material weaknesses continues to affect the Department's ability to fully comply with financial management system requirements. Therefore, the Department is also reporting a non-compliance with FFMIA. The Department is actively engaged to correct the area of material weakness through significant compensating controls while undergoing system improvement and modernization efforts. The outcome of these efforts will efficiently enable the Department to comply with government-wide requirements and thus reduce the need for manual compensating controls.

Table 3: FFMIA Non-compliance Details and Corrective Actions

Area of Non compliance	DHS Component(s)	Year Identified	Target Correction Date
	All	FY 2003	FY 2023
FFMIA	Multiple deficiency areas exist that are attributed to the FFMIA area of non-compliance, which include the following: • *Financial System Requirements* (Contributing Component(s): All) Non-compliance Details ○ DHS does not substantially comply with FFMIA primarily due to lack of compliance with financial system requirements as disclosed in the IT Controls and System Functionality area of material weakness. Planned Corrective Actions ○ Refer to the corrective actions planned for the IT Controls and System Functionality area of material weakness. • *Federal Accounting and U.S. Standard General Ledger (USSGL) Requirements* (Contributing Component(s): USCG, CBP, MGMT, and ICE) Non-compliance Details ○ USCG, CBP, MGMT, and ICE noted that certain key systems are unable to produce transaction level activity that reconciles at the USSGL-level. USCG also reported a lack of compliance as its financial and mixed systems do not allow for financial statements and budgets to be prepared, executed, and reported fully in accordance with the requirements prescribed by the OMB, Treasury, and the Federal Accounting Standards Advisory Board. Planned Corrective Actions ○ DHS CFO and Components will continue to design, document, and implement compensating controls to reduce the severity of legacy system application / functionality limitations.		

Digital Accountability and Transparency Act of 2014

Pursuant to OMB Circular A-123, Appendix A, Management of Reporting and Data Integrity Risk, the Department issued its Digital Accountability and Transparency Act of 2014 (DATA Act) Data Quality Plan on July 6, 2021. The plan describes the organizational structure, operating environment, internal controls processes, and systems used to generate, validate, and evaluate the data published to USAspending.gov. The plan includes DHS's processes for compiling, reviewing, and monitoring the quality of data provided to USAspending.gov. In addition, the plan describes the processes to assess the level of data quality, methods for increasing the data quality, and the data risk management strategy. The outcomes of this plan align with the Administration's goal for greater transparency, ultimately benefiting citizens and holding government accountable for its stewardship over its assets.

Components assess the design and operating effectiveness of their respective DATA Act reporting processes and controls over consolidation and variance resolution of data submitted to DHS Headquarters. DHS also utilizes a risk assessment process to identify high risk data elements and tests the accuracy, completeness, and timeliness of the recorded transactions against source documents. This two-pronged approach ensures that the Department can provide reasonable assurance that reports over DATA Act are reliable both at reporting and transaction levels further supporting the fidelity of reported transactions to Treasury. In FY 2021, FEMA noted a material inadequacy associated with its DATA Act reporting. The inadequacy has been substantially compensated due to DHS validation pre-check processes as well as regular oversight and metrics reporting. Despite the FEMA noted exceptions, DHS has successfully matched over 98.6% percent of financial data (File C) and award data (File D) dollars.

To continue making improvements and enhancements to the Department's DATA Act reporting processes and controls, an enhanced Component corrective action plan process is maintained that: 1) addresses researching and correcting matching award identification numbers with non-matching obligation amounts; 2) identifies the root causes of timing issue misalignments; and 3) continuously tracks misalignments until corrective actions are completed

Financial Management Systems

Pursuant to the Chief Financial Officers Act of 1990, the DHS CFO is responsible for developing and maintaining agency accounting and financial management systems to ensure systems comply with applicable accounting principles, standards, and requirements with internal control standards. As such, the DHS CFO oversees and coordinates all the Financial Systems Modernization (FSM) efforts for the Department's core accounting systems.

Foundational tenets for the FSM programs are:

- Increase business process standardization across Components through efforts to define a common set of financial management business processes and then ensure that the Component business process re-engineering and modernization efforts reflect the DHS process standard.
- Implement standard financial data element structures, such as the DHS Accounting Classification Structure and Common Appropriation Structure, across Components to standardize reporting and reduce manual reporting processes and inconsistent data.
- Continue to plan and execute financial system modernization projects by migrating components to modernized platforms with integrated asset and procurement management systems that meet Department and government-wide requirements, reduce the need for manual processes, and strengthen internal controls. FSM projects should leverage existing infrastructure, shared services, and technologies such as cloud-based solutions to the extent possible, following guidance and lessons learned from previous attempts to integrate DHS Components' financial management systems.
- Lastly, after standardization and modernization has occurred, work to consolidate financial operations and transaction processing service centers, where cost effective.

DHS has established the FSM Joint Program Management Office (JPMO) to lead and manage all aspects of the FSM programs, in partnership with DHS Components. In March 2017, it was determined that DHS would transition the CWMD, TSA, and USCG FSM initiatives (known as the Trio) out of their current shared service provider environment and into a DHS-managed solution. This solution, known as the Financial Systems Modernization Solution (FSMS), delivers a standardized baseline for the Trio. In October of 2018, TSA and USCG resumed implementation efforts and the Department completed upgrading CWMD to the latest version of the solution in October 2019. In October of 2020, TSA went live on the FSMS platform and USCG is on schedule to go-live in November of 2021.

DHS is leveraging lessons learned from the former shared services implementation, reducing risk in future migrations through deliberative approaches to program management, resource management, business process standardization, risk management, change management, schedule rigor, and oversight. Lessons learned from the Trio implementations will be further leveraged as the JPMO plans for Discovery efforts in FY 2022 for FEMA as well as ICE and its customer Components[2].

In addition to the DHS FSM efforts, the DHS CIO and Component CIOs met federal mandates to develop IT strategic plans, analyze legacy IT infrastructure requirements, and identify modernization needs. To ensure strategic planning activities are conducted across the Department, DHS issued a directive[3] in 2018 to require Component-level CIOs to develop, implement, and maintain IT strategic plans annually. The DHS CIO published the FYs 2019–2023 IT Strategic Plan in March 2019. The DHS IT Strategic Plan identifies an IT vision to "deliver world class IT to enhance and support the DHS mission." With a focus on rebuilding foundations and driving innovation, the DHS IT Strategic Plan outlines four goals aiming to advance the DHS organizational culture, improve network connectivity & resilience, mature the DHS cybersecurity posture, and transform technology to meet DHS customer needs.

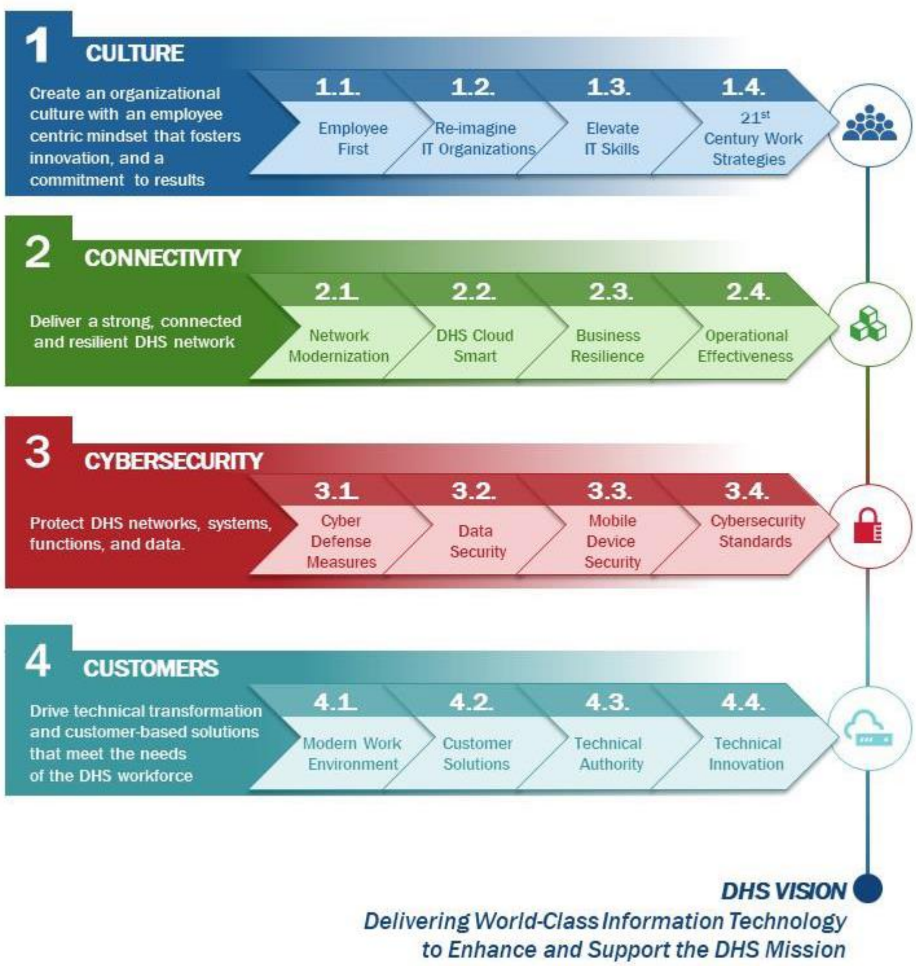


Figure 4: DHS IT Strategic Plan – Goals

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[2] ICE serviced Components include: S&T, Management Directorate, CISA, and USCIS

[3] DHS Directive 142-02 Rev. 01, Information Technology Integration and Management, April 12, 2018

Specifically related to modernization, the 2019-2023 DHS IT Strategic Plan outlined initiatives to adopt cloud-based computing[4] and to consolidate and optimize data centers. To assist in these efforts, DHS established the Cloud Steering Group in May 2018 to oversee the implementation of a federated, enterprise-wide strategy for accelerating the modernization and migration of DHS IT applications and infrastructure to the cloud; and optimization of the remaining data centers by aligning their capabilities and economics, to the extent possible, with the cloud.

[4] The OMB *Federal Cloud Computing Strategy* defines cloud computing as solutions exhibiting five essential characteristics: on-demand service, broad network access, resource pooling, rapid elasticity, and measured service.

Financial Information

- The **Financial Information** section demonstrates our commitment to effective stewardship over the funds DHS receives to carry out its mission, including compliance with relevant financial management requirements.
- The **Basic Information** includes DHS' **Financial Statements**, which includes the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources and Statements of Custodial Activity—as well as the **accompanying Notes to the Financial Statements.**
- The **Required Supplementary Information** provides sections to present information on Deferred Maintenance and Repairs, Combining Statement of Budgetary Resources, and Custodial Activity.
- The **Independent Auditors' Report** is provided by KPMG LLP on the Department's Financial Statements and accompanying Notes.

Message from the Acting Chief Financial Officer (ACFO)

November 12, 2021

I am honored to join Secretary Alejandro Mayorkas in presenting the Department of Homeland Security (DHS) Fiscal Year (FY) 2021 Agency Financial Report (AFR). One of our critical duties is to be good stewards of the taxpayer dollars DHS uses every day to help secure our homeland.

Adapting quickly to an ever-changing threat environment and the new challenges that come with it is critical to securing our homeland. To support the critical missions of the Department, we are dedicated to continued improvement of our access to financial data across DHS and leveraging the data to enable data-driven decision support. We are committed to having the right data at the right time at the right level to allow for informed decision making across all levels of the Department.

To support the access to and use of data within the financial community, we published the DHS CFO Financial Data Strategy (Strategy) this year. It provides a foundational framework for the Department to build a standardized and programmatic approach to accelerate the use of data to deliver the mission, serve the public, and steward resources while protecting privacy and confidentiality. The Strategy calls for a centralized data governance program that establishes policies and processes to coordinate and strengthen our Department-wide data management activities, data analytics, reporting, and workforce capabilities, and provide timely access to reliable, accurate, and quality information to support data-driven decisions.

We also created the Unified View of Investment (UVI) which provides insight into financial, procurement, acquisition health, and staffing information for major programs. With the upcoming release of UVI 3.0, we are able to aggregate and unify data sets to provide the Department's acquisition community with the ability to examine major acquisition contract, financial, and programmatic data from a single dashboard. Consolidating the information in one place provides leadership with access to information across multiple stakeholders to inform decisions for their Components and the Department.

Further, we are proud that in November 2020, the Transportation Security Administration (TSA) went live to a new, modern financial system on time and on budget. This new system provides more efficient financial operations and enhanced timely and accurate reporting. More than 1,100 TSA and U.S. Coast Guard Finance Center employees have used these enhanced capabilities to process TSA's annual operating costs, amounting to more than $8 billion. These more effective business support functions allow us to free up resources for improving and supporting front-line mission operations.

The Department has seen steady improvements in our financial management processes and controls throughout FY 2021. However, with two areas of material weaknesses as well as areas of significant deficiency remaining, the Department continues its remediation efforts using a multi-year, risk-based approach. The Department's commitment to advance accountability remains absolute. DHS earning its 9th consecutive unmodified ("clean") audit opinion on our financial statements for FY 2021 demonstrates our unwavering dedication for excellence in financial management.

You will be able to see more of the Department's FY 2021 accomplishments in this report, which provides detailed information about DHS's financial results, operational performance, and internal controls. DHS remains committed to safeguarding the American people, our homeland, and our values. We will continue to do this with accountability, transparency, and flexibility – strengthening our risk management, internal controls, and mission-based resourcing to maximize the return on taxpayer investment.

Sincerely,

Stacy Marcott
Acting Chief Financial Officer

Introduction

The principal financial statements included in this report are prepared pursuant to the requirements of the *Government Management Reform Act of 1994* (P.L. 103-356) and the *Chief Financial Officers Act of 1990* (P.L. 101-576), as amended by the *Reports Consolidation Act of 2000* (P.L. 106-531), and the *Department of Homeland Security Financial Accountability Act of 2004* (P.L. 108-330). Other requirements include the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, as amended. The responsibility for the integrity of the financial information included in these statements rests with the management of DHS. KPMG LLP performed the audit of the Department's principal financial statements. The Independent Auditors' Report accompanies the principal financial statements.

The Department's principal financial statements consist of the following:

- The Consolidated **Balance Sheets** present those resources owned or managed by the Department that represent future economic benefits (assets), amounts owed by DHS that will require payments from those resources or future resources (liabilities), and residual amounts retained by DHS comprising the difference (net position) as of September 30, 2021 and 2020.
- The Consolidated **Statements of Net Cost** present the net cost of DHS operations for the fiscal years that ended on September 30, 2021 and 2020. DHS net cost of operations is the gross cost incurred by DHS less any exchange revenue earned from DHS activities and any gains or losses from assumption changes on pensions, other retirement benefits (ORB), and other post-employment benefits (OPEB).
- The Consolidated **Statements of Changes in Net Position** present the change in the Department's net position resulting from changes in total financing sources and changes in the net cost of DHS operations for the fiscal years that ended on September 30, 2021 and 2020.
- The Combined **Statements of Budgetary Resources** present how and in what amounts budgetary resources were made available to the Department during fiscal years 2021 and 2020, the status of these resources at September 30, 2021 and 2020, the changes in the obligated balance, and outlays of budgetary resources for the fiscal years that ended on September 30, 2021 and 2020.
- The Consolidated **Statements of Custodial Activity** present the disposition of custodial revenue collected and disbursed by the Department on behalf of other recipient entities for the fiscal years that ended on September 30, 2021 and 2020.
- The **Notes to the Financial Statements** provide detail and clarification for amounts on the face of the financial statements as of September 30, 2021 and 2020.

Financial Statements

Department of Homeland Security
Consolidated Balance Sheets
As of September 30, 2021 and 2020
(In Millions)

	2021	2020
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$ 163,044	$ 131,013
Investments, Net (Note 5)	11,443	11,087
Accounts Receivable, Net (Note 6)	727	1,467
Other Assets (Note 13)	739	862
Total Intragovernmental	**$ 175,953**	**$ 144,429**
With the Public		
Cash and Other Monetary Assets (Note 4)	64	77
Accounts Receivable, Net (Note 6)	1,672	1,743
Taxes Receivable, Net (Note 7)	8,093	6,783
Loans Receivable, Net (Note 8)	8	66
Inventory and Related Property, Net (Note 9)	2,531	2,384
General Property, Plant, and Equipment, Net (Note 11)	27,893	26,561
Other Assets (Note 13)	924	966
TOTAL ASSETS	**$ 217,138**	**$ 183,009**
Stewardship Property, Plant, and Equipment (Note 12)		
LIABILITIES (Note 14)		
Intragovernmental		
Accounts Payable	$ 2,982	$ 2,277
Debt (Note 15)	20,618	20,596
Other Liabilities (Note 18)		
Liability to the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets	8,052	6,773
Other Liabilities (Without Reciprocals)	46	158
Other Liabilities	1,073	1,156
Total Intragovernmental	**$ 32,771**	**$ 30,960**
With the Public		
Accounts Payable	2,624	3,131
Federal Employee and Veteran Benefits Payable (Note 16)	75,570	71,835
Environmental and Disposal Liabilities (Note 17)	628	622
Insurance and Guarantee Program Liabilities (Note 20)	3,436	2,830
Other Liabilities (Notes 18, 19, and 21)	15,541	24,053
Total Liabilities	**$ 130,570**	**$ 133,431**
Commitments and Contingencies (Note 21)		

(Continued)

Department of Homeland Security
Consolidated Balance Sheets
As of September 30, 2021 and 2020
(In Millions)

	2021	2020
NET POSITION		
Unexpended Appropriations		
Unexpended Appropriations-Funds Other than those from Dedicated Collections (Combined)	$ 132,437	$ 94,375
Total Unexpended Appropriations (Combined)	**$ 132,437**	**$ 94,375**
Cumulative Results of Operations		
Cumulative Results of Operations-Funds from Dedicated Collections (Note 22) (Combined)	(1,727)	(2,598)
Cumulative Results of Operations-Funds Other than those from Dedicated Collections (Combined)	(44,142)	(42,199)
Total Cumulative Results of Operations	**$ (45,869)**	**$ (44,797)**
Total Net Position	**$ 86,568**	**$ 49,578**
TOTAL LIABILITIES AND NET POSITION	**$ 217,138**	**$ 183,009**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statements of Net Cost
For the Years Ended September 30, 2021 and 2020
(In Millions)

	2021	2020
Operational Components		
U.S. Customs and Border Protection		
Gross Cost	$ 17,627	$ 16,394
Less Earned Revenue	(359)	(275)
Net Cost	**17,268**	**16,119**
Federal Emergency Management Agency		
Gross Cost	41,623	66,661
Less Earned Revenue	(4,817)	(5,958)
Net Cost	**36,806**	**60,703**
U.S. Immigration and Customs Enforcement		
Gross Cost	8,478	8,019
Less Earned Revenue	(248)	(147)
Net Cost	**8,230**	**7,872**
Transportation Security Administration		
Gross Cost	8,555	8,468
Less Earned Revenue	(3,016)	(2,488)
Net Cost	**5,539**	**5,980**
U.S. Coast Guard		
Gross Cost	13,777	13,703
Less Earned Revenue	(331)	(435)
Net Cost	**13,446**	**13,268**
U.S. Citizenship and Immigration Services		
Gross Cost	4,333	4,428
Less Earned Revenue	(4,516)	(4,249)
Net Cost	**(183)**	**179**
U.S. Secret Service		
Gross Cost	2,629	2,440
Less Earned Revenue	(12)	(18)
Net Cost	**2,617**	**2,422**
Cybersecurity and Infrastructure Security Agency		
Gross Cost	2,060	2,008
Less Earned Revenue	(10)	(2)
Net Cost	**2,050**	**2,006**

Department of Homeland Security
Consolidated Statements of Net Cost
For the Years Ended September 30, 2021 and 2020
(In Millions)

	2021	2020
Departmental Operations and Other Support Components		
Gross Cost	5,606	5,094
Less Earned Revenue	(1,409)	(1,302)
Net Cost	**4,197**	**3,792**
Total Department of Homeland Security		
Gross Cost	104,688	127,215
Less Earned Revenue	(14,718)	(14,874)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	89,970	112,341
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes (Note 16)	1,573	3,061
NET COST OF OPERATIONS	**$ 91,543**	**$ 115,402**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statements of Changes in Net Position
For the Year Ended September 30, 2021
(In Millions)

	2021			
	Combined Funds from Dedicated Collections (Note 22)	Combined All Other Funds	Eliminations	Consolidated Total
Unexpended Appropriations:				
Beginning Balance	$ -	$ 94,375	$ -	$ 94,375
Appropriations Received	-	124,461	-	124,461
Appropriations Transferred In/(Out)	-	1	-	1
Other Adjustments	-	(635)	-	(635)
Appropriations Used	-	(85,765)	-	(85,765)
Net Change in Unexpended Appropriations	-	38,062	-	38,062
Total Unexpended Appropriations: Ending	**$ -**	**$ 132,437**	**$ -**	**$ 132,437**
Cumulative Results of Operations:				
Beginning Balance	(2,598)	(42,199)	-	(44,797)
Other Adjustments	(1)	-	-	(1)
Appropriations Used	-	85,765	-	85,765
Non-Exchange Revenue (Note 32)	1,878	1	-	1,879
Donations and Forfeitures of Cash and Cash Equivalents	3	-	-	3
Transfers In/(Out) without Reimbursement	(4,287)	3,507	-	(780)
Donations and Forfeitures of Property	41	-	-	41
Imputed Financing	261	1,626	10	1,877
Other	3,340	(1,653)	-	1,687
Net Cost of Operations	(364)	(91,189)	(10)	(91,543)
Net Change in Cumulative Results of Operations	871	(1,943)	-	(1,072)
Cumulative Results of Operations: Ending	**$ (1,727)**	**$ (44,142)**	**$ -**	**$ (45,869)**
NET POSITION	**$ (1,727)**	**$ 88,295**	**$ -**	**$ 86,568**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statements of Changes in Net Position
For the Year Ended September 30, 2020
(In Millions)

	2020			
	Combined Funds from Dedicated Collections (Note 22)	Combined All Other Funds	Eliminations	Consolidated Total
Unexpended Appropriations				
Beginning Balance	$ -	$ 87,723	$ -	$ 87,723
Appropriations Received	-	115,893	-	115,893
Appropriations Transferred In/(Out)	-	267	-	267
Other Adjustments	-	(1,365)	-	(1,365)
Appropriations Used	-	(108,143)	-	(108,143)
Net Change in Unexpended Appropriations	-	6,652	-	6,652
Total Unexpended Appropriations: Ending	**$ -**	**$ 94,375**	**$ -**	**$ 94,375**
Cumulative Results of Operations				
Beginning Balance	(3,789)	(38,744)	-	(42,533)
Other Adjustments	(3)	-	-	(3)
Appropriations Used	-	108,143	-	108,143
Non-Exchange Revenue (Note 32)	2,220	2	(1)	2,223
Donations and Forfeitures of Cash and Cash Equivalents	4	-	-	4
Transfers In/(Out) without Reimbursement	(3,569)	3,372	-	(197)
Donations and Forfeitures of Property	-	14	-	14
Imputed Financing	223	1,433	8	1,648
Other	2,880	(1,573)	1	1,306
Net Cost of Operations	(564)	(114,846)	(8)	(115,402)
Net Change in Cumulative Results of Operations	1,191	(3,455)	-	(2,264)
Cumulative Results of Operations: Ending	**$ (2,598)**	**$ (42,199)**	**$ -**	**$ (44,797)**
NET POSITION	**$ (2,598)**	**$ 52,176**	**$ -**	**$ 49,578**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2021 and 2020
(In Millions)

	2021 Budgetary	2021 Non-Budgetary Credit Reform Financing Accounts	2020 Budgetary	2020 Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory) (Note 27)	46,955	-	51,835	13
Appropriations (discretionary and mandatory)	142,442	-	133,025	-
Borrowing Authority (discretionary and mandatory) (Note 23)	-	32	-	33
Spending Authority from Offsetting Collections (discretionary and mandatory)	9,437	123	11,687	45
TOTAL BUDGETARY RESOURCES	**$ 198,834**	**$ 155**	**$ 196,547**	**$ 91**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (total)	$ 142,017	$ 155	$ 160,441	$ 91
Unobligated Balance, End of Year				
Apportioned, Unexpired Accounts	52,137	-	33,286	-
Exempt from Apportionment, Unexpired Accounts	7	-	5	-
Unapportioned, Unexpired Accounts	2,504	-	1,078	-
Unexpired Unobligated Balance, End of Year	54,648	-	34,369	-
Expired Unobligated Balance, End of Year	2,169	-	1,737	-
Unobligated Balance, End of Year (total)	56,817	-	36,106	-
TOTAL BUDGETARY RESOURCES	**$ 198,834**	**$ 155**	**$ 196,547**	**$ 91**
OUTLAYS, NET AND DISBURSEMENTS, NET				
Outlays, Net (total) (discretionary and mandatory)	110,229	-	110,355	-
Distributed Offsetting Receipts (-)	(12,137)	-	(11,291)	-
AGENCY OUTLAYS, NET (discretionary and mandatory)	**$ 98,092**	**$ -**	**$ 99,064**	**$ -**
Disbursements, Net (total) (mandatory)		$ 22		$ -

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statements of Custodial Activity
For the Years Ended September 30, 2021 and 2020
(In Millions)

	2021	2020
Revenue Activity (Note 28)		
Sources of Cash Collections:		
Duties	$ 85,466	$ 74,401
User Fees	1,671	1,421
Excise Taxes	4,773	3,967
Fines and Penalties	117	84
Interest	55	91
Miscellaneous	62	110
Total Cash Collections	92,144	80,074
Accrual Adjustments, Net	1,249	(1,217)
Total Custodial Revenue	**93,393**	**78,857**
Disposition of Collections		
Transferred to Federal Entities:		
Treasury General Fund Accounts	56,992	48,370
U.S. Department of Agriculture	25,959	22,537
U.S. Army Corps of Engineers	1,557	1,310
Other Federal Agencies	82	49
Transferred to Non-Federal Entities	29	76
(Increase)/Decrease in Amounts Yet to be Transferred	1,405	(1,094)
Refunds and Drawbacks (Notes 18 and 28)	7,369	7,609
Total Disposition of Collections	**93,393**	**78,857**
NET CUSTODIAL ACTIVITY	**$ -**	**$ -**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

1. *Summary of Significant Accounting Policies*

A. Reporting Entity

The Department was established by the Homeland Security Act of 2002 (P.L. 107-296), dated November 25, 2002, as an executive department of the U.S. Federal Government. The Department leads efforts to achieve a safe, secure, and resilient homeland by countering terrorism and enhancing our security; securing and managing our borders; enforcing and administering our immigration laws; protecting our cybernetworks and critical infrastructure; and ensuring resilience from disasters. In addition, the Department contributes in many ways to elements of broader United States national and economic security while also working to mature and strengthen the Department and the homeland security enterprise. The Department includes the following financial reporting Components[5]:

- **U.S. Customs and Border Protection (CBP)**
- **Cybersecurity and Infrastructure Security Agency (CISA)**
- **Federal Emergency Management Agency (FEMA)**
- **U.S. Immigration and Customs Enforcement (ICE)**
- **Transportation Security Administration (TSA)**
- **U.S. Coast Guard (USCG)**
- **U.S. Citizenship and Immigration Services (USCIS)**
- **U.S. Secret Service (USSS)**
- **Departmental Operations and Other Support Components**, including the Management Directorate (MGMT), the Office of the Secretary, the Office of Inspector General (OIG), Countering Weapons of Mass Destruction (CWMD) Office, the Office of Intelligence and Analysis (I&A), the Office of Operations Coordination (OPS), Science and Technology Directorate (S&T), and the Federal Law Enforcement Training Centers (FLETC).

B. Basis of Presentation

These financial statements are prepared to report the consolidated financial position, net cost of operations, changes in net position, custodial activity, and combined budgetary resources of the Department pursuant to the Government Management Reform Act of 1994 and the Chief Financial Officers Act of 1990, as amended by the Reports Consolidation Act of 2000 and the DHS Financial Accountability Act of 2004.

The Department's financial statements have been prepared from the accounting records of the Department based on U.S. generally accepted accounting principles (GAAP) and OMB Circular A-136, *Financial Reporting Requirements*, as amended. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, the official accounting standards-setting body of the Federal Government.

The Department's financial statements reflect the reporting of departmental activities, including appropriations received to conduct operations and revenue generated from operations. The financial statements also reflect the reporting of certain non-entity (custodial) functions performed by the Department on behalf of the Federal Government. Accounting standards

[5] Financial reporting Components are to be distinguished from direct report Components described in the Management's Discussion and Analysis, Our Organization.

require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

Intragovernmental assets and liabilities are derived from activity with other federal entities. All other assets and liabilities result from activities with parties outside the Federal Government, such as domestic and foreign persons, organizations, or governments. Intragovernmental earned revenue includes collections or revenue accruals from other federal entities, and intragovernmental costs are payments or expense accruals to other federal entities.

Transactions and balances among the Department's Components have been eliminated in the consolidated presentation of the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and the Statements of Custodial Activity. Intradepartmental activity reported in a fund from dedicated collection is often offset with activity in other funds. Accordingly, the Department presents information for funds from dedicated collections and all other funds in the Balance Sheets and Statements of Changes in Net Position on a combined basis. The elimination of intradepartmental activity between dedicated collections and all other funds is presented in the Statements of Changes of Net Position. The Statements of Budgetary Resources are reported on a combined basis; therefore, intradepartmental balances have not been eliminated.

While these financial statements have been prepared from the books and records of the Department in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

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

C. Basis of Accounting

Transactions are recorded on an accrual and a budgetary basis of accounting. Under the accrual basis, revenue is recognized when earned, and expenses are recognized when a liability is incurred, regardless of when cash is exchanged. Budgetary accounting facilitates compliance with legal constraints and the controls over the use of federal funds. The balances and activity of budgetary accounts are used to prepare the Statements of Budgetary Resources. The Statements of Custodial Activity are reported using the modified cash basis. With this basis, revenue from cash collections is reported separately from receivable accruals, and cash disbursements are reported separately from payable accruals.

D. Use of Estimates

Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of consolidated financial statements, and the reported amounts of revenue, claims, and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include: the year-end accruals of accounts and grants payable; environmental liabilities; deferred revenue; National Flood Insurance Program (NFIP) insurance liability; actuarial liabilities related to workers' compensation; taxes, allowance for doubtful accounts, duties and trade receivables, including supplemental duty bills; actuarial liabilities related to military and other pension, retirement, and post-retirement benefits; and the funeral assistance program.

E. Entity and Non-Entity Assets

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

Non-entity assets are assets held by the Department but not available for use by the Department. An example of a non-entity asset is the portion of Fund Balance with Treasury that consists of certain special and deposit funds, permanent and indefinite appropriations, and miscellaneous receipts. Non-entity assets are offset by corresponding liabilities.

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

F. Fund Balance with Treasury

Fund Balance with Treasury represents the aggregate amount of the Department's accounts with the Department of the Treasury (Treasury) available to pay current liabilities and finance authorized purchases, except as restricted by law. The Department's Fund Balance with Treasury balances are primarily appropriated, revolving, trust, deposit, receipt, and special fund amounts remaining as of the end of the fiscal year.

For additional information regarding the Budgetary Status, see Note 3, Fund Balance with Treasury.

G. Cash and Other Monetary Assets

The Department's cash and other monetary assets primarily consist of undeposited collections, imprest funds, cash used in undercover operations, cash held as evidence, cash held by insurance companies, and seized cash and monetary instruments. The Department maintains cash in commercial bank accounts.

Insurance companies receive and process certain receipts and disbursements on behalf of FEMA. Insurance companies hold cash from flood insurance premiums to be remitted to Treasury, as well as insurance claim payments to be distributed to the insured.

For additional information, see Note 4, Cash and Other Monetary Assets.

H. Investments, Net

Investments consist of Federal Government nonmarketable market-based Treasury securities and are reported at cost or amortized cost net of premiums or discounts. Premiums or discounts are amortized into interest income over the terms of the investment using the effective interest method.

No provision is made for unrealized gains or losses on these securities because it is the Department's intent to hold these investments to maturity.

For additional information, see Note 5, Investments, Net.

I. Receivables, Net

Accounts receivable represent amounts due to the Department from other federal agencies and the public. In general, intragovernmental accounts receivable arise from the provision of goods and services to other federal agencies.

Accounts receivable due from the public typically result from various immigration and user fees, premiums and policy fees from insurance companies and policyholders, breached bonds, reimbursable services, oil spill cost recoveries, security fees, loans, grant programs and contracts.

Accounts receivable are presented net of an allowance for doubtful accounts, which is based on analyses of debtors' ability to pay, specific identification of probable losses, aging analysis of past-due receivables, or historical collection experience.

Taxes, duties, and trade receivables include supplemental duty bills, user fees, fines and penalties, refunds and drawback overpayments, and interest associated with import/export activity, which have been established as specifically identifiable, legally enforceable claims which remain uncollected as of year-end. This balance excludes amounts referred to Treasury because they are considered 100% uncollectible, as all collection efforts have been exhausted on these receivables prior to referral.

For additional information, see Note 6, Accounts Receivable, Net; Note 7, Taxes Receivable, Net; and Note 22, Funds from Dedicated Collections.

J. Advances and Prepayments

Intragovernmental advances, presented as a component of other assets in the accompanying Balance Sheets, consist primarily of advances for support of border security, as well as disaster recovery and assistance to other federal agencies.

Advances and prepayments to the public, presented as a component of other assets in the accompanying Balance Sheets, consist primarily of disaster recovery and assistance grants to states, allowances and commission expenses to insurance companies, and other grant activity.

The allowances and commission expenses are amortized over the life of the policy. Disaster recovery and assistance grant advances are expensed as they are used by the recipients. Advances are made within the amount of the total grant obligation.

For additional information, see Note 13, Other Assets.

K. Loans Receivable, Net

Direct loans are loans issued by the Department to local governments. FEMA, the only DHS Component with loan activity, operates the Community Disaster Loan Program to support local governments that have suffered a substantial loss of tax and other revenue as a result of a major disaster and demonstrate a need for federal financial assistance in order to perform their municipal operating functions. Under the program, FEMA transacts direct loans to local governments that meet statutorily set eligibility criteria. Loans are accounted for as receivables as funds are disbursed.

All of the Department's loans are post-1991 obligated direct loans, and the resulting receivables are governed by the *Federal Credit Reform Act of 1990* (FCRA) (P.L. 101-508). Under FCRA, for direct loans disbursed during a fiscal year, the corresponding receivable is adjusted for subsidy costs. Subsidy costs are estimated long-term costs to the Federal Government for its loan programs. The subsidy cost is equal to the present value of the estimated cash outflows over the life of the loans minus the present value of the estimated cash inflows, discounted at the applicable Treasury interest rate. Administrative costs such as salaries and contractual fees are not included. Subsidy costs can arise from interest rate differentials, interest subsidies, delinquencies and defaults, and other cash flows. The Department calculates the subsidy costs based on a subsidy calculator model created by OMB.

Loans receivable are recorded at the present value of the estimated net cash flows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recorded in the allowance for subsidy, which is estimated and adjusted annually, as of year-end. Loans receivable, net, or the value of assets related to direct loans, is not the same as the expected proceeds from selling the loans. Interest receivable is the total interest that has accrued on each of the outstanding loans, less any cancellations that may have been recorded due to the FEMA cancellation policy as described in 44 Code of Federal Regulations (CFR) Section 206.366.

For additional information, see Note 8, Loans Receivable, Net.

L. Inventory and Related Property, Net

Operating Materials and Supplies (OM&S) held for use and repair represent the largest portion of DHS inventory and related property. OM&S consist primarily of goods, including reparable spare parts, consumed during the maintenance of assets used to perform DHS missions, including vessels, small boats, electronic systems, and aircraft.

OM&S managed by the USCG inventory control points consist of consumable and reparable items that are valued at historical cost using a moving average cost and accounted for using the consumption method. OM&S reparable items that are in a "held for repair" status are recorded at historical cost with an allowance for the cost of the repair.

OM&S held at CBP sites consist of aircraft parts, vessel parts, and border security parts to be used in CBP's operations. Manned aircraft and border security parts and materials are recorded at average unit cost. Unmanned aircraft parts and vessel parts are recorded using the first-in/first-out valuation method. Both methods approximate actual acquisition costs. OM&S reparable items that are in a "held for repair" status are recorded using the direct method for the cost of repairs.

Inventory is tangible personal property held for sale or used in the process of production for sale. Inventory includes items such as fuel and subsistence. Inventories on hand at year-end are stated at cost using standard price/specific identification, first-in/first-out, or moving average cost methods, which approximates historical cost. Revenue on inventory sales and associated cost of goods sold are recorded when merchandise is sold to the end user.

Critical materials are stockpiled and held due to statutory requirements for use in national emergencies. The Department's stockpile materials held by FEMA include goods that would be used to respond to national disasters (e.g., water, meals, cots, blankets, tarps, and blue roof sheeting). Stockpile materials at year-end are stated at historical cost using the weighted average method.

For additional information, see Note 9, Inventory and Related Property, Net.

M. Seized and Forfeited Property

Seized property is reported in two categories: nonprohibited and prohibited.

Nonprohibited seized property includes items that are not inherently illegal to possess or own, such as monetary instruments, real property, and tangible personal property of others. Nonprohibited seized and forfeited property is reported by the Treasury Forfeiture Fund.

Prohibited seized property includes illegal drugs, contraband, and counterfeit items that cannot legally enter into the commerce of the United States. Prohibited seized property results primarily from criminal investigations and passenger/cargo processing. Prohibited seized property is not considered an asset of the Department and is not reported as such in the Department's financial statements. However, the Department has a stewardship responsibility until the disposition of the seized items is determined (i.e., judicially or administratively forfeited or returned to the entity from which it was seized).

Forfeited property is seized property for which the title has passed to the Federal Government. Prohibited forfeited items such as counterfeit goods, narcotics, or firearms are held by the Department until disposed of or destroyed.

For additional information, see Note 10, Seized and Forfeited Property.

N. General Property, Plant, and Equipment, Net

The Department's Property, Plant, and Equipment (PP&E) consists of aircraft, vessels, vehicles, land, structures, facilities, leasehold improvements, software, information technology, and other equipment—including small boats, security equipment, industrial equipment, and communications gear. PP&E is generally recorded at historical cost. The Department capitalizes PP&E acquisitions when the cost equals or exceeds an established threshold and has a useful life of two years or more. Land is not depreciated.

Costs for construction projects are recorded as construction-in-progress until the asset is placed in service. Costs are valued at actual (direct) costs plus applied overhead and other indirect costs. At year-end, a portion of the construction-in-progress balance may be estimated to accrue amounts for work completed but not yet recorded. The Department owns some of the buildings in which Components operate. The majority of other buildings are provided by the General Services Administration (GSA), which charges rent equivalent to the commercial rental rates for similar properties.

Internal-use software includes purchased commercial off-the-shelf (COTS) software, contractor-developed software, and internally developed software. For COTS software, the capitalized costs are equal to the amount paid to the vendor for the software. For contractor-developed software, the capitalized costs include the amount paid to a contractor to design, program, install, and implement the software. For internally developed software, capitalized costs include the full costs (direct and indirect) incurred during the software development phase. Costs incurred during the preliminary design and post-implementation/operational phases are expensed in the period incurred.

DHS increased its capitalization threshold from $200,000 to $500,000 for equipment, capital leases, buildings and other structures, leasehold improvements, and improvements to land acquired on or after October 1, 2020. DHS policy is to continue using legacy capitalization thresholds and Component-specific policies for assets acquired prior to October 1, 2020. The schedule below shows a summary of the capitalization thresholds and estimated useful life in accordance with DHS-wide policy. Actual capitalization thresholds and service lives used by DHS Components may vary. Bulk purchases are subject to a $2 million capitalization threshold. Capital improvements extending the service life of assets are not included in these ranges.

Asset Description	Capitalization Threshold	Useful Life
Land	Zero	Not Applicable
Improvements to Land	$500,000	2 years to 50 years
Buildings, Other Structures and Facilities	$500,000	10 years to 50 years
Equipment	$500,000	5 years to 30 years
Capital Leases	$500,000	2 years to 20 years
Leasehold Improvements	$500,000	2 years to 50 years
Internal Use Software	$750,000	2 years to 13 years

The Department begins to recognize depreciation expense once the asset has been placed in service. Depreciation is calculated on a straight-line method for all asset classes over their estimated useful lives. Leasehold improvements are depreciated over the shorter of the term of the remaining portion of the lease or the useful life of the improvement. Buildings and equipment acquired under capital leases are amortized over the lease term. Amortization of capitalized software is calculated using the straight-line method and begins on the date of acquisition if purchased, or when the module or component has been placed in use (i.e., successfully installed and tested) if contractor or internally developed. There are no restrictions on the use or convertibility of general PP&E.

For additional information, see Note 11, General Property, Plant, and Equipment, Net, and Note 19, Leases.

O. Stewardship Property, Plant, and Equipment

Stewardship PP&E includes heritage assets that generally are not included in general PP&E presented on the Balance Sheet. Heritage assets are unique due to their historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. In general, heritage assets are expected to be preserved indefinitely.

These heritage assets consist of documents, historical artifacts, immigration and naturalization files, artwork, buildings, and structures. The cost of improving, reconstructing, or renovating heritage assets is recognized as an expense in the period incurred. Similarly, the cost to acquire or construct a heritage asset is recognized as an expense in the period incurred.

Heritage assets can serve two purposes: a heritage function and a general government operational function. If a heritage asset serves both purposes, but is predominantly used for general government operations, the heritage asset is considered a multi-use heritage asset, which is depreciated and included in general PP&E on the Balance Sheet. Due to their nature, heritage assets not used for general government operational functions are not depreciated because matching costs with specific periods would not be meaningful. The Department depreciates its multi-use heritage assets over their useful life. The Department's multi-use heritage assets consist of buildings and structures, memorials, and recreation areas.

For additional information, see Note 12, Stewardship Property, Plant, and Equipment.

P. Liabilities

Liabilities represent the probable and measurable future outflow or other use of resources as a result of past transactions or events. Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or for which funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available congressionally appropriated funds or other amounts, where there is no certainty that the appropriations will be enacted. Liabilities not requiring budgetary resources are liabilities that have not in the past required and will not in the future require the use of budgetary resources. The Federal Government, acting in its sovereign capacity, can annul liabilities of the Department arising from any transaction or event other than contracts or other instances where its sovereign immunity has been waived (e.g., refund statutes).

Q. Contingent Liabilities

The Department accrues contingent liabilities where a loss is determined to be probable and the amount can be reasonably estimated. The Department discloses contingent liabilities where the conditions for liability recognition have not been met and the likelihood of unfavorable outcome is more than remote. Contingent liabilities considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

For additional information, see Note 21, Commitments and Contingent Liabilities.

Environmental Cleanup Costs. Environmental liabilities consist of environmental remediation, cleanup, and decommissioning. The Department is responsible for remediating its sites with environmental contamination and is party to various administrative proceedings, legal actions, and tort claims that may result in settlements or decisions adverse to the Federal Government. The liability for environmental remediation is an estimate of costs necessary to bring a known contaminated asset into compliance with applicable environmental standards. Accruals for environmental cleanup costs are the costs of removing, containing, and/or disposing of hazardous wastes or materials that, because of quantity, concentration, or physical or chemical characteristics, may pose a substantial present or potential hazard to human health or the environment.

For all PP&E in service after September 30, 1997, the Department recognizes the estimated total cleanup costs associated with the PP&E when the cleanup costs are probable and reasonably estimable. The estimate may be subsequently adjusted for material changes due to inflation/deflation or changes in regulations, cleanup plans, or technology. The applicable costs of decommissioning the Department's existing and future vessels are considered cleanup costs.

For additional information, see Note 17, Environmental and Disposal Liabilities.

R. Liabilities for Grants and Cooperative Agreements

The Department awards grants and cooperative agreements to state and local governments, universities, nonprofit organizations, and private-sector companies to build their capacity to respond to disasters and emergencies; conduct research into preparedness; enhance and ensure the security of passenger and cargo transportation by air, land, or sea; and support other Department-related activities. The Department estimates the year-end grant and cooperative agreement accrual for unreported and unpaid recipient expenditures using historical disbursement data in compliance with Federal Financial Accounting Technical Release 12, *Accrual Estimates for Grant Programs*. Grants and cooperative agreement liabilities are recorded as grants payable to the public and reported as Other Liabilities in the accompanying Balance Sheets. As grantee expenditure in a given year may vary greatly depending on occurrence of disasters and the expiration dates of awards for the numerous non-disaster grant programs, the estimate may significantly vary year-over-year.

S. Insurance Liabilities

Insurance liabilities are primarily the result of the Department's sale or continuation-in-force of flood insurance policies within the NFIP, which is managed by FEMA. NFIP is an exchange transaction insurance, and DHS discloses Insurance Liabilities in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 51, *Insurance Programs*.

The NFIP insurance liability represents an estimate based on the loss and loss adjustment expense factors inherent to the NFIP Insurance Underwriting Operations, including trends in claim severity and frequency. These estimates are routinely reviewed, and adjustments are made as deemed necessary. The estimate is driven primarily by flooding activity in the U.S. and can significantly vary year over year depending on timing and severity of flooding activity.

The Biggert-*Waters Flood Insurance Reform Act of 2012* (P.L. 112-141), the *Homeowner Flood Insurance Affordability Act of 2014* (P.L. 113-89), and the *Continuing Appropriations Act, 2021 and Other Extensions Act* (P.L. 116-159) amended the *National Flood Insurance Act of 1968* to extend the NFIP, the financing for it, and established a National Flood Insurance Reserve Fund to meet the expected future obligations of the NFIP. The acts authorized FEMA to secure reinsurance coverage from private reinsurance and capital markets to maintain the financial ability of the program to pay claims from major flooding events. The reinsurance agreement places the NFIP in a better position to manage losses incurred that result from major flooding events.

Subsidized rates are charged on a countrywide basis for certain classifications of the insured. These subsidized rates produce a premium less than the loss and loss adjustment expenses expected to be incurred in a historical average loss year. Subsidized rates are used to provide affordable insurance on construction or substantial improvements started on or before December 31, 1974, or before the effective date of the initial Flood Insurance Rate Map (i.e., an official map of a community on which NFIP has delineated both the special hazard areas and the nonsubsidized premium zones applicable to the community). NFIP premium revenue is recognized ratably over the life of the policies. Deferred revenue relates to other NFIP unearned revenue including the federal policy fee, reserve fund assessment, and Homeowner Flood Insurance Affordability Act (HFIAA) surcharge.

For additional NFIP information, see Note 15, Federal Debt and Interest Payable; Note 18, Other Liabilities, Note 20, Insurance Liabilities; Note 22, Funds from Dedicated Collections; and Note 23, Available Borrowing Authority.

T. Debt and Borrowing Authority

Debt is reported within Intragovernmental Liabilities and results from Treasury loans and related interest payable to fund NFIP and Disaster Assistance Direct Loan Program (DADLP) operations of FEMA. Most of this debt is not covered by current budgetary resources. Premiums collected by FEMA for the NFIP are not sufficient to cover the debt repayments (see Note 1.S., Insurance Liabilities). Given the current premium rate structure, FEMA will not be able to generate sufficient resources from premiums to pay its debt in full.

Borrowing authority, to the extent of existing obligations, is in budgetary status for use by FEMA for insurance claims and community disaster loans (CDLs). Borrowing authority is converted to cash and transferred to the Fund Balance with Treasury when needed for these purposes. Insurance claims and CDLs have indefinite borrowing authority. Indefinite borrowing authority represents the balance of borrowing authority which is the amount equal to those unpaid obligations covered by borrowing authority at the close of the fiscal year.

For more information, see Note 15, Federal Debt and Interest Payable, and Note 23, Available Borrowing Authority.

U. Accrued Payroll and Benefits

Accrued Payroll. Accrued payroll consists of salaries, wages, and other compensation earned by employees but not disbursed as of September 30. The liability is estimated for reporting purposes based on historical pay information.

Leave Program. Earned annual and other vested compensatory leave is accrued as it is earned and reported on the Balance Sheet. The liability is reduced as leave is taken. Each year, the balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances. Sick leave and other types of nonvested leave are not earned benefits. Accordingly, nonvested leave is expensed when used.

Federal Employees Compensation Act. The *Federal Employees Compensation Act* (FECA) (P.L. 103-3) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on claims paid by DOL but not yet reimbursed by the Department. The Department reimburses DOL for claims as funds are appropriated for this purpose. In general, there is a two-year period between payment by DOL and reimbursement to DOL by the Department. As a result, the Department recognizes an intragovernmental liability for the claims paid by DOL and to be reimbursed by the Department.

The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a component of federal employee and veteran benefits. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL determines the actuarial FECA liability annually, as of September 30, using an actuarial method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value using the OMB economic assumptions for ten-year Treasury notes and bonds. The actuarial FECA liability is not covered by budgetary resources and will require future funding.

For additional information regarding unfunded FECA liability, payroll, and leave, see Note 18, Other Liabilities. For more information on the actuarial FECA liability, see Note 14, Liabilities Not Covered by Budgetary Resources, and Note 16, Federal Employee and Veteran Benefits Payable.

V. Federal Employee and Veteran Benefits

The Department's federal employee and veteran benefits consist of civilian employee retirement plans, the USCG's Military Retirement System (MRS), the USCG Military Health System (MHS), the USSS's Uniformed Division and Special Agent Pension, and other retirement benefits (ORB) and other post-employment benefits (OPEB). The Department recognizes the full annual cost of its civilian employees' pension benefits; however, the assets of the plan and liability associated with pension costs are recognized by OPM rather than the Department. Accordingly, the Department does not display gains and losses from changes in long-term assumptions used to measure civilian pension liabilities on the Statement of Net Cost.

Civilian Pension, Other Retirement Benefits, and Other Post-Employment Benefits. Most of DHS employees hired after December 31, 1983 are covered by the Federal Employees Retirement System (FERS) which consists of a basic annuity plan, the Thrift Savings Plan (TSP), and Social Security. Employees hired between January 1, 1984 and December 31, 2012 are covered by the FERS basic annuity benefit. For the FERS basic annuity benefit, the Department contributes 17.3% of base pay for regular FERS employees and 35.8% for law enforcement agents. Employees hired between January 1, 2013 and December 31, 2013 are covered by the FERS revised annuity benefit; employees hired after December 31, 2013 are covered by the FERS further revised annuity benefit. For the FERS revised annuity benefit and the FERS further revised annuity benefit, the Department contributes 15.5% of base pay for regular FERS employees and 34% for law enforcement agents. In addition, the Department automatically contributes to the TSP a minimum of one percent of base pay and matches employee contributions up to an additional four percent of base pay. The Department also contributes the employer's Social Security matching share for FERS participants. DHS employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS) to which the Department contributes 7% of base pay for regular CSRS employees and 7.5% for law enforcement agents.

Similar to FERS and CSRS, OPM reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program and Federal Employees Group

Life Insurance Program. The Department reports both the full annual cost of providing these ORB for its retired employees and reporting contributions made for active employees. In addition, the Department recognizes the cost for OPEB, including all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

The difference between the full annual cost of FERS, CSRS retirement, ORB, and OPEB and the amount paid by the Department is recorded as an imputed cost and offsetting imputed financing source in the accompanying financial statements.

The Department applies SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation* Dates, in selecting the discount rate and valuation date used in estimating actuarial liabilities for the MRS, the MHS, and the Uniformed Division and Special Agent Pension. Gains and losses from changes in long-term assumptions used to measure these liabilities are reported as a separate line item on the Statement of Net Cost.

Military Retirement System. The MRS is a defined benefit plan that includes pension benefits, disability benefits, and survivor benefits and covers all retired active duty and reserve military members of the USCG. The plan is a pay-as-you-go system funded through annual appropriations. The actuarial accrued liability is the portion of the present value of the future benefits expected to be paid that is attributed to past service (service by participants rendered prior to the date of determination). The remaining portion of that present value is attributed to future service (service by participants rendered on or after the date of determination) and is the present value of the future employer normal costs. The normal cost (current period expense) and the attribution of the present value of the future benefits between past service and future service are determined using the aggregate entry age normal actuarial cost method.

Under the *National Defense Authorization Act (NDAA) for FY 2016* (P.L. 114-92), members entering service after December 31, 2017 will be enrolled in the new modernized retirement system, also referred to as the Blended Retirement System (BRS). BRS changes the pension formula by reducing the percentage per year of service, and entitles members to Thrift Savings Plan contributions, as well as additional compensation in exchange for a commitment for additional years of service (after serving for 12 years). A service point is awarded for every day of active service rendered, including monthly drill activities, as well as other categories (e.g. 15 points are awarded annually for Reserve participation). Members who joined USCG after January 1, 2006, and reservists with fewer than 4,320 points as of December 31, 2017, could choose either BRS or the legacy retirement system; any election to opt-in to BRS was required to be made during calendar year 2018 and is irrevocable. Reservists who joined on or after January 1, 2018 are automatically enrolled in the BRS.

The NDAA for FY 2021 (P.L. 116-283) was enacted in January 2021 and included a major change for the USCG, authorizing the payment of USCG's MRS retirement benefits from the Department of Defense (DoD) Military Retirement Fund by October 1, 2022. It is anticipated that the USCG's MRS actuarial accrued liability will be transferred to DoD by October 1, 2022.

Military Health System. There are two categories of military healthcare benefits, but only one generates a liability for the USCG retirees and beneficiaries. The first category of military healthcare liability is for the Medicare-eligible USCG military retirees and beneficiaries. The DoD is the administrative entity for the Medicare-Eligible Retiree Health Care Fund (MERHCF) and, in accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, is required to recognize the liability on the MERHCF's financial statements. The USCG makes annual payments to fund benefits for the current active duty members and their spouses who will receive benefits when they reach Medicare-eligibility. The USCG receives per-member amounts (reserve and active duty member amounts separately) to be contributed to the MERHCF from the DoD Board of Actuaries office and pays its share, depending on its demography. Because the DoD reports the entire liability for MERHCF, USCG is only responsible for the annual per-member amounts.

The second category of military healthcare liability is for retirees and beneficiaries not yet eligible for Medicare. The MHS is a post-retirement medical benefit plan that covers all active component and reserve component members of the USCG. The USCG is the administrative entity for MHS, and in accordance with SFFAS No. 5, recognizes the liability which is reported in DHS financial statements. As with the MRS, the actuarial accrued liability for MHS is the portion of the present value of the future benefits expected to be paid that is attributed to past service (service by participants rendered prior to the date of determination). Benefits are funded on a pay-as-you-go basis through annual appropriations.

Uniformed Division and Special Agent Pension. The District of Columbia (DC) Police Officers' and Firefighters' Retirement Plan (the DC Pension Plan) is a defined benefit plan that covers USSS Uniformed Division and Special Agents hired as civilians prior to January 1, 1984, and eligible for transfer to the DC Pension Plan. Uniformed Division and Special Agents hired after that date are covered as law enforcement agents by FERS basic annuity benefit, FERS revised annuity benefit, or FERS further revised annuity benefit, as appropriate. The DC Pension Plan makes benefit payments to retirees or their beneficiaries. USSS receives permanent, indefinite appropriations each year to pay the excess of benefit payments over salary deductions. USSS calculates pension liability using a discount rate assumption for present value of future benefits in accordance with SFFAS No. 5 and SFFAS No. 33. The unfunded accrued liability is actuarially determined by subtracting the present value of future employer/employee contributions, as well as any plan assets, from the present value of future cost of benefits. SFFAS No. 5 permits the use of actuarial cost methods other than the aggregate entry age normal actuarial cost method if the difference is not material.

For more information on MRS, MHS, Uniformed Division and Special Agent Pension, and the actuarial assumptions used to compute the accrued pension and healthcare liabilities, see Note 16, Federal Employee and Veteran Benefits Payable.

The discount rates used to measure the MRS and MHS actuarial liabilities for USCG and the USSS actuarial liability are based on the ten-year average historical rates of return on marketable Treasury securities as of June 30 of the fiscal year. The rates used in this average are the rates for securities that will mature on the dates on which future benefit payments are expected to be made.

W. Funds from Dedicated Collections

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

Non-exchange revenue and other financing sources from funds from dedicated collections, including net cost of operations, are shown separately on the Statements of Changes in Net Position. The portion of cumulative results of operations attributable to funds from dedicated collections is shown separately on both the Statements of Changes in Net Position and the Balance Sheets.

For additional information, see Note 22, Funds from Dedicated Collections.

X. Revenue and Financing Sources

Appropriations. The Department receives the majority of funding to support its programs through congressional appropriations. The Department receives annual, multi-year, and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional funding is obtained through exchange revenue, non-exchange revenue (including donations from the public), and transfers-in from other federal entities.

The Department also has permanent indefinite appropriations that result from permanent public laws, which authorize the Department to retain certain receipts. The amount appropriated depends upon the amount of the receipts rather than on a specific amount. The Department also has a permanent indefinite appropriation but does not retain the receipts. Specifically, amounts received and not issued as refunds to importers are returned to Treasury at the end of the fiscal year.

Appropriations are recognized as financing sources when related expenses are incurred, or assets are purchased. Revenue from reimbursable agreements is recognized when the goods or services are provided by the Department. Reimbursable work between federal agencies is generally subject to the Economy Act (31 United States Code (U.S.C.) 1535).

Appropriations Received on the Statement of Changes in Net Position differs from that reported on the Combined Statement of Budgetary Resources because Appropriations Received on the Statement of Changes in Net Position do not include receipts from dedicated collections. Receipts from dedicated collections are accounted for as either exchange or non-exchange revenue.

Exchange and Non-Exchange Revenue. Exchange revenue is recognized when earned and is derived from transactions where both the government and the other party receive value (i.e., goods have been delivered or services have been rendered). Exchange revenue prices are recognized using full cost or market pricing guidance in OMB Circular No. A-25, *User Charges,* except when prices are set by law or executive order. Higher prices based on full cost or market price might reduce the quantity of goods or services demanded and, therefore, the difference between revenue received and such higher prices does not necessarily provide an indication of revenue foregone. DHS exchange revenue includes, but is not limited to: immigration fees; NFIP insurance premiums; Student Exchange Visa Program fees; and aviation security fees. Reimbursable exchange revenue includes but is not limited to: services provided to the government of Puerto Rico for the collection of duties, taxes, and fees; services for personnel; medical, housing, and various types of maritime support; the Federal Protective Service Guard personnel; and oil spill cleanup costs.

The majority of DHS non-exchange revenue is derived from customs duties, custodial collections of user fees, taxes, fines and penalties, and interest on the fines and penalties net of refunds and drawbacks related to these collections. Non-exchange revenue from user fees results from the government's sovereign power to demand revenue and is recognized as earned. Examples of non-exchange revenue from user fees include the collection of fees by CBP on incoming private vessels, private aircraft, and commercial vehicles. Non-exchange revenue also arises from transfers-in with and without financing sources and donations from the public. Other financing sources, such as donations and transfers of assets without reimbursements, are recognized on the Statements of Changes in Net Position during the period in which the donations and transfers occurred.

Deferred revenue is recorded when the Department receives payment for goods or services which have not been fully rendered. Deferred revenue is reported as a liability on the Balance Sheet until earned. USCIS fees are related to adjudication of applications and petitions for immigration and naturalization services that are used to provide special benefits to recipients and pay the regulatory costs from the adjudication process. USCIS requires advance payments of the fees for adjudication of applications or petitions for immigration and naturalization benefits. FEMA's deferred revenue relates to other NFIP unearned revenue including the federal policy fee, reserve fund assessment, and HFIAA surcharges.

Inter-Entity Cost. Certain goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed are recognized as imputed cost and are offset by imputed revenue. Prices for goods and services sold to other Federal Government agencies are generally limited to the recovery of direct cost. Such imputed costs and revenues relate to business-type activities (if applicable), employee benefits, and claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

Imputed Financing Sources. In certain instances, operating costs of the Department are paid out of funds appropriated to other federal agencies. For example, OPM, by law, pays certain costs of retirement programs, and certain legal judgments against DHS are paid from a judgment fund maintained by the Treasury. When costs that are identifiable to DHS and directly attributable to DHS operations are paid by other agencies, the Department recognizes these amounts as operating expenses. The Department also recognizes an imputed financing source on the Statements of Changes in Net Position to indicate the funding of DHS operations by other federal agencies.

Custodial Activity. Non-exchange and non-entity revenue, disbursements, and refunds and drawbacks are reported on the Statement of Custodial Activity using a modified cash basis. Non-entity revenue reported on the Department's Statement of Custodial Activity include duties, excise taxes, and various non-exchange fees collected by CBP that are subsequently remitted to the Treasury general fund or to other federal agencies. Duties, user fees, fines, and penalties are assessed pursuant to the provisions of 19 U.S.C.; nonimmigrant petition fees and interest under 8 U.S.C.; and excise taxes are assessed under 26 U.S.C.

CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. The custodial revenue is recorded at the time of collection. These revenue collections primarily result from current fiscal year activities. CBP records an equal and offsetting liability due to the Treasury general fund for amounts recognized as non-entity tax and trade receivables. Non-entity tax and trade accounts receivables consist of duties, excise taxes, user fees, fines and penalties, refunds and drawbacks overpayments, and interest associated with import/export activity, that have been established as specifically identifiable, legally enforceable claims that remain uncollected as of year-end. CBP accrues an estimate of duties, taxes, and fees related to entry summaries filed by the importer and received by CBP prior to year-end where receipt of payment is anticipated subsequent to year-end. The portions of the fees that are subsequently remitted to other federal agencies are recorded as custodial revenue at the time of collection. Non-entity receivables are presented net of amounts deemed uncollectible.

CBP tracks and enforces payment of estimated duties, taxes, and fees receivable by establishing a liquidated damages case that generally results in fines and penalties receivable. A fine or penalty, including interest on past-due balances, is established when a violation of import/export law is discovered. An allowance for doubtful collections is established for substantially all accrued fines and penalties and related interest. The amount is based on a statistical sample to assess historical collectability of these receivables. Statutes and regulations allow importers to dispute the assessment of duties, taxes, and fees. Receivables related to disputed assessments are not recorded until the protest period expires or a protest decision is rendered in CBP's favor.

Refunds and drawback of duties, taxes, and fees are recognized when payment is made. Generally, a permanent, indefinite appropriation is used to fund the disbursement of refunds and drawbacks. Disbursements are recorded as a decrease in the amount transferred to federal entities as reported on the Statements of Custodial Activity. The liability for refunds and drawbacks consists of amounts owed for refunds of duty and other trade related activity and drawback claims. CBP accrues a monthly liability for refunds and drawback claims approved at month-end but paid subsequent to month-end.

An accrual adjustment is recorded on the Statements of Custodial Activity 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 at year-end. For additional information, see Note 7, Taxes Receivable, Net, and Note 28, Custodial Revenue.

Y. Taxes

The Department, as a federal agency, is not subject to federal, state, or local income taxes. Therefore, no provision for income taxes has been recorded in the accompanying financial statements.

Z. Reclassifications

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this Report to see how the amounts shown on the Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the *Financial Report of the United States Government*. The presentation of the FY 2020 Balance Sheet was modified to be consistent with the FY 2021 presentation. In addition, certain FY 2020 balances were reclassified to conform to the FY 2021 presentation in accordance with OMB Circular A-136 for Note 14, Liabilities Not Covered by Budgetary Resources, Note 16, Federal Employee and Veteran Benefits Payable, and Note 18, Other Liabilities.

The FY 2020 presentation of Note 5, Investments, Net, for USCG's Oil Spill Liability Trust Fund (OSLTF), Sport Fish Restoration and Boating Trust Fund (SFRBTF), and General Gift Fund was changed from Nonmarketable, Par Value to Nonmarketable, Market-based.

The FY 2020 presentation of Note 22, Funds from Dedicated Collections, was reclassified to align the presentation of the Liabilities section to the FY 2021 format.

The FY 2020 COVID-19 Activity, Note 31, disclosure was reclassified to present FEMA's COVID-19 related activities by program, with the remaining Components grouped as "All Other Components."

2. Non-Entity Assets

Non-Entity Assets at September 30 consisted of the following (in millions):

	2021	2020
Intragovernmental:		
Fund Balance with Treasury	$ 3,450	$ 3,131
Accounts Receivable, Net	-	1
Total Intragovernmental	3,450	3,132
With the Public:		
Cash and Other Monetary Assets	13	20
Accounts Receivable, Net	20	21
Taxes Receivable, Net	8,093	6,783
Total With the Public	8,126	6,824
Total Non-Entity Assets	11,576	9,956
Total Entity Assets	205,562	173,053
Total Assets	**$ 217,138**	**$ 183,009**

Non-entity Fund Balance with Treasury consists of certain special and deposit funds, permanent and indefinite appropriations, and miscellaneous receipts. Non-entity assets (also discussed in Notes 4, 6, and 7) are offset by corresponding liabilities at September 30, 2021 and 2020. Taxes, duties, and trade receivables from the public represent amounts due from importers for goods and merchandise imported to the United States.

3. *Fund Balance with Treasury*

Status of Fund Balance with Treasury

The Status of Fund Balance with Treasury at September 30 consisted of the following (in millions):

	2021	2020
Budgetary Status		
Unobligated Balances:		
Available	$ 52,144	$ 33,291
Unavailable	4,673	2,815
Obligated Balance Not Yet Disbursed	103,804	92,893
Total Budgetary Status	160,621	128,999
Reconciling Adjustments:		
Receipt, Clearing, and Deposit Funds	3,348	3,449
Borrowing Authority (Note 23)	(15)	(20)
Investments	(11,345)	(10,967)
Receivable Transfers and Imprest Funds	(329)	(299)
Authority Unavailable for Obligation	8,425	7,851
Offsetting Collections Previously or Temporarily Precluded from Obligation	33	34
Sport Fish Restoration and Boating Trust Fund; Oil Spill Liability Trust Fund	1,728	1,553
Temporary Reduction of Budget Authority	447	418
Temporary Reduction of Specific Invested Treasury Account Symbol	(6)	(5)
Receipts and Appropriations Temporarily Precluded from Obligation	137	-
Total Fund Balance with Treasury	**$ 163,044**	**$ 131,013**

The Disaster Relief Fund (DRF) is an appropriation against which FEMA can direct, coordinate, manage, and fund eligible response and recovery efforts associated with domestic major disasters and emergencies that overwhelm State resources pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act. The DRF represents approximately 65% of the unobligated balances available, and 61% of the total fund balance with Treasury at September 30, 2021; and 47% of the unobligated balances available, and 55% of the total fund balance with Treasury at September 30, 2020.

The Unobligated Balance available in the Subsequent Periods include amounts apportioned for future fiscal years that are available for obligation in the following subsequent periods (in millions):

FY 2022	$	4,185
FY 2023		79
FY 2024		83

Portions of the Unobligated Balances Available, Unavailable, and Obligated Balance Not Yet Disbursed contain CBP's user fees restricted by law in its use to offset costs incurred by CBP.

Portions of the Unobligated Balance Unavailable include amounts appropriated in prior fiscal years that are not available to fund new obligations, including expired funds. However, the amounts can be used for upward and downward adjustments for existing obligations in future years. The large variance pertaining to Unobligated Balances Available between FY 2021 and FY 2020 is due to significant increases in Allotments for the American Rescue Plan Act (P.L. 117-2). The Obligated Balance Not Yet Disbursed represents amounts designated for payment of goods and services ordered but not received or goods and services received but for which payment has not yet been made.

Since the following line items do not post to Fund Balance with Treasury and budgetary status accounts simultaneously, certain adjustments are required to reconcile the budgetary status to non-budgetary Fund Balance with Treasury as reported in the accompanying Balance Sheets:

- Receipt, clearing, and deposit funds represent amounts on deposit with Treasury that have no budget status at September 30, 2021 and 2020.
- Borrowing authority, to the extent of existing obligations, is in budgetary status for use by FEMA for NFIP purposes and CDLs, and transfers have been made to the Fund Balance with Treasury account for these purposes. For additional information, see Note 23, Available Borrowing Authority.
- Budgetary resources have investments included; however, the money has been moved from the Fund Balance with Treasury asset account to Investments.
- Receivable transfers of currently invested balances increase the budget authority at the time the transfer is realized; however, obligations may be incurred before the actual transfer of funds.
- Imprest funds represent funds moved from Fund Balance with Treasury to Cash and Other Monetary Assets with no change in the budgetary status.
- For authority unavailable for obligations, authorizing statute may specify that obligations are not available until a specified time in the future or until specific legal requirements are met.
- Offsetting collections previously or temporarily precluded from obligation are offsetting collections that become unavailable for obligation until specific legal requirements are met.
- Sport Fish Restoration and Boating Trust Fund (SFRBTF) and Oil Spill Liability Trust Fund (OSLTF) are Treasury-managed funds. These funds receive revenue transferred from custodial activities of the Treasury, which are deposited in a Treasury account. For more information, see Note 22, Funds from Dedicated Collections.
- Temporary reduction of budget authority includes new budget authority or prior-year balance that have been temporarily reduced by statute in special and nonrevolving trust funds associated with receipt accounts designated by the Treasury as available.

- Temporary reduction of specific invested Treasury account symbols includes reductions of amounts appropriated from specific invested Treasury account symbols in the current year due to OMB sequestered amounts.
- Receipts and appropriations temporarily precluded from obligation are budget authority that becomes available for obligation from appropriations (derived from special or trust non-revolving fund receipts) and borrowing authority previously precluded from obligation.

4. Cash and Other Monetary Assets

Cash and Other Monetary Assets at September 30 consisted of the following (in millions):

	2021	2020
Total Cash and Other Monetary Assets	$ 64	$ 77

DHS cash includes cash held by others, imprest funds, undeposited collections, and the net balances maintained by insurance companies for flood insurance activity. Restricted non-entity cash and other monetary assets were $13 million and $20 million at September 30, 2021 and 2020, respectively (see Note 2, Non-Entity Assets). Restricted non-entity cash consists of undeposited collections that can be distributed to Treasury General Fund, other federal agencies, or other governments.

5. Investments, Net

Investments, Net at September 30, 2021, consisted of the following (in millions):

Type of Investment:	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental Securities and Investments:						
OSLTF	Effective interest method	$ 7,833	$ 18	$ 15	$ 7,866	$ 7,912
SFRBTF	Effective interest method	2,224	10	5	2,239	2,235
General Gift Fund	Effective interest method	2	-	-	2	2
National Flood Insurance Reserve Fund	Effective interest method	1,342	(8)	2	1,336	1,335
Total Nonmarketable, Market-Based		11,401	20	22	11,443	11,484
Total Intragovernmental Securities and Investments, Net		**$ 11,401**	**$ 20**	**$ 22**	**$ 11,443**	

Investments at September 30, 2020, consisted of the following (in millions):

Type of Investment:	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental Securities:						
OSLTF	Effective interest method	$ 7,315	$ 16	$ 15	$ 7,346	$ 7,474
SFRBTF	Effective interest method	2,083	10	11	2,104	2,108
General Gift Fund	Effective interest method	2	-	-	2	2
National Flood Insurance Reserve Fund	Effective interest method	1,645	(12)	2	1,635	1,668
Total Nonmarketable, Market-Based		11,045	14	28	11,087	11,252
Total Intragovernmental Securities and Investments, Net		**$ 11,045**	**$ 14**	**$ 28**	**$ 11,087**	

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections: OSLTF, SFRBTF and General Gift Fund at USCG, and National Flood Insurance Reserve Fund and Gifts and Donations Fund at FEMA. The cash receipts collected from the public for a fund from dedicated collections are deposited in the Treasury, which uses the cash for general Federal Government purposes. Treasury securities are issued to the USCG and FEMA as evidence of its receipts. Treasury securities associated with funds from dedicated collections are an asset to the USCG and FEMA, respectively, and a liability to the Treasury. Treasury securities are eliminated in consolidation for the U.S. Government-Wide financial statements.

Treasury securities provide the USCG and FEMA with ability to draw upon the Treasury to make future benefit payments or other expenditures. When the USCG and FEMA redeem the Treasury securities to make expenditures, the U.S. Treasury will finance those expenditures in the same manner that it finances all other expenditures. For additional information, see Note 22, Funds from Dedicated Collections.

The FY 2020 presentation of OSLTF, SFRBTF, and General Gift Fund was changed from Nonmarketable, Par Value to Nonmarketable, Market-based. The omission of market value information from the FY 2020 AFR represents an immaterial error due to insignificant differences between the reported investment amount and the market value.

6. Accounts Receivable, Net

Accounts Receivable, Net, at September 30 consisted of the following (in millions):

	2021	2020
Intragovernmental	$ 727	$ 1,467
With the Public:		
Accounts Receivable, Net	1,901	1,931
Allowance for Doubtful Accounts	(229)	(188)
Total with the Public	1,672	1,743
Accounts Receivable, Net	**$ 2,399**	**$ 3,210**

As of September 30, 2021, and 2020, total restricted non-entity accounts receivable were $20 and $22 million, respectively (see Note 2, Non-Entity Assets). Interest is accrued on uncollectible accounts receivable until the interest payment requirement is officially waived by the entity or the related debt is written off.

The decrease in intragovernmental receivables in FY 2021 is due to FEMA's prior year accounts receivable collected for reimbursable agreements with the Department of Health and Human Services and Small Business Administration for personal protective equipment in response to COVID-19.

Accounts receivable, net include amounts related to criminal restitution owed to the government. In FY 2021, included in accounts receivable is $24 million of gross receivables related to criminal restitution orders, of which $1 million is determined to be collectible. CBP also has criminal restitution orders most of which are related to, and reported as part of, taxes and duties receivable due to their custodial nature (See Note 7, Taxes Receivable, Net). Gross receivables and net collectible amounts related to CBP's criminal restitution orders are $206 million and $7 million, respectively.

In FY 2020, accounts receivable, net, included $24 million of gross receivables related to criminal restitution orders, of which $1 million was determined to be collectible. Gross receivables and net collectible amounts related to CBP's criminal restitution orders were $194 million and $16 million, respectively.

7. Taxes Receivable, Net

Taxes Receivable, Net consisted of the following (in millions):

As of September 30, 2021:	Gross Receivables	Allowance	Total Net Receivables
Duties	$ 7,673	$ (306)	$ 7,367
Excise Taxes	269	(12)	257
User Fees	115	(1)	114
Fines/Penalties	874	(806)	68
Antidumping and Countervailing Duties	3,397	(3,172)	225
Interest Receivable	1,825	(1,763)	62
Total Taxes Receivable, Net	**$ 14,153**	**$ (6,060)**	**$ 8,093**

As of September 30, 2020:	Gross Receivables	Allowance	Total Net Receivables
Duties	$ 6,269	$ (226)	$ 6,043
Excise Taxes	224	(12)	212
User Fees	96	(3)	93
Fines/Penalties	1,330	(1,084)	246
Antidumping and Countervailing Duties	3,212	(3,045)	167
Interest Receivable	1,753	(1,731)	22
Total Taxes Receivable, Net	**$ 12,884**	**$ (6,101)**	**$ 6,783**

CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. Antidumping duties are assessed when it is determined that a class or kind of foreign merchandise is being released into the U.S. economy at less than its fair value to the detriment of a U.S. industry. Countervailing duties are collected when it is determined that a foreign government is providing a subsidy to its local industries to manufacture, produce, or export a class or kind of merchandise for import into the U.S. commerce to the detriment of a U.S. industry.

When a violation of import/export law is discovered, a fine or penalty may be imposed. If imposed, CBP assesses a liquidated damage or penalty for these cases up to the maximum extent of the law. After receiving the notice of assessment, the importer, surety, or other party has 60 days to either file a petition requesting a review of the assessment or pay the assessed amount. Once a petition is received, CBP investigates the circumstances as required by its mitigation guidelines and directives. Until this process has been completed, the Department records an allowance, net of interest, on fines and penalties, based on historical experience of fines and penalties mitigation and collection. The allowance was approximately 92% and 82% at September 30, 2021 and 2020. Duties and taxes receivables are non-entity assets for which there is an offsetting liability due to the general fund (see Note 18, Other Liabilities).

CBP assesses interest when taxes, duties, and trade receivables remain unpaid after the original due date. The interest is calculated using the rate published on the CBP website and in the Federal Register quarterly. Interest accruals are calculated using the same methodology as the underlying receivable accrual and include an allowance for amounts deemed potentially uncollectible.

8. Loans Receivable, *Net*

The Department's loan program consists of CDLs administered by FEMA. CDLs may be authorized to local governments that have suffered a substantial loss of tax and other revenue as a result of a major disaster and have demonstrated a need for federal financial assistance in order to perform their municipal operating functions.

On an annual basis, using the Treasury five-year curve rate, a subsidy estimate is calculated to determine the subsidy rate to be used in order to cover the subsidized portion of future disbursements. The subsidy estimate calculation is based on the re-payment period extended through an initial five-year term plus the five-year extension, the historical average cancellation rate, and the Moody's default rating for municipalities.

The subsidy estimate is revised on an annual basis, also known as a re-estimate, which updates for actual performance and/or estimated changes in future cash flows of the cohort. Legislation also plays a significant role in the subsidy cost of a cohort. New legislation that alters the baseline cash flow estimate for a loan or group of loans always results in a modification. A modification means a government action that may change the cost by altering the terms of the existing contract and changes the estimated cost of an outstanding direct loan.

The CDLs are established at the current Treasury rate for a term of five years. A standard CDL has a maximum amount of $5 million. The CDL amount cannot exceed 25% of the annual operating budget of the local government for the fiscal year in which the major disaster occurred, unless the loss of tax and other revenue for the local government is at least 75% of the annual operating budget. In this case, the CDL amount cannot exceed 50% of the annual operating budget. These CDLs can be cancelled by FEMA upon request from local government, if the local government meets the eligibility requirements in 44 CFR section 206.366, *Emergency and Management Assistance, Loan Cancellation*.

An exception is the special CDL for Hurricanes Katrina and Rita, where the interest rate on the loan is less than the Treasury rate, and the amount of the loan cannot exceed 50% of the annual operating budget of the local government for the fiscal year in which the major disaster occurred. In addition, special CDLs may exceed $5 million and may be cancelled in accordance with the following Stafford Act amendments: the *Community Disaster Loan Act of 2005* (P.L. 109-88), the *U.S. Troop Readiness, Veteran's Care, Katrina Recovery, and Iraq Accountability Appropriations Act* (P.L. 110-28), the E*mergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006* (P.L. 109-234), and 44 CFR, *Emergency and Management Assistance*.

The *Consolidated and Furthering Appropriations Act, 2013* (P.L. 113-6) loosened the restrictions used in calculating the operating deficit for special CDLs to determine if a local government qualifies for additional cancellations. In addition, the law allows FEMA to reimburse those local governments who have repaid all, or a portion of, their loans, and who have received additional cancellations. Analysis and execution of cancellations and refunds were complete as of April 30, 2015. All remaining loans not cancelled shall be repaid no later than September 30, 2035 as stated in P.L. 113-6.

In FY 2018, Congress passed the Additional Supplemental Appropriations for *Disaster Relief Requirements Act, 2017* (P.L. 115-72) which provided $4.9 billion to DADLP for local governments affected by Hurricanes Harvey, Irma, and Maria. Of the $4.9 billion, 1.5% may be used for Section 417 administrative expenses, $150 million for Section 319 Advance of Non-Federal Share subsidy, $1 million for Section 319 administrative expenses, and the remainder for Section 417 subsidy. P.L. 115-72 specifies that a territory or possession, and instrumentalities and local governments thereof, of the United States shall be deemed a local government. Loan sizing may be based on projected loss of tax and other revenues and on projected cash outlays not previously budgeted for a period not to exceed 180 days from date of disaster, may exceed $5 million cap, and local governments may receive more than one loan. Language also specifies that loans may be cancelled in whole or in part at the discretion of Secretary of Homeland Security and Secretary of the Treasury.

Additionally, Congress passed the *Bipartisan Budget Act of 2018* (P.L. 115-123) which provided another $150 million to the DADLP for Section 319 Advance of Non-Federal Share subsidy, of which $1 million may be used Section 319 administrative expenses. P.L. 115-123 also amended the 180 days provision in P.L. 115-72 and inserted 365 days.

Congress passed the *Consolidated Appropriations Act of 2021* (P.L. 116-260) authorizing loans issued for 2018 disaster declarations to exceed $5 million and the loan sizing may be based on the projected loss of tax and other revenues and on projected cash outlays not previously budgeted for a period not to exceed one year beginning on the date that the major disaster occurred.

A. Summary of Direct Loans to Non-Federal Borrowers at September 30 (in millions):

	2021	2020
	Loans Receivable, Net	Loans Receivable, Net
Community Disaster Loans	$ 8	$ 66

An analysis of loans receivable and the nature and amounts of the subsidy and administrative costs associated with the direct loans is provided in the following sections.

B. Direct Loans Obligated (in millions):

Community Disaster Loans	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
2021	$ 833	$ 38	$ (863)	$ 8
2020	$ 655	$ 20	$ (609)	$ 66

C. Total Amount of Direct Loans Disbursed (in millions):

	2021	2020
Community Disaster Loans	$ 187	$ 101

D. Subsidy Expense for Direct Loans by Program and Component (in millions):

Subsidy Expense for New Direct Loans Disbursed as of September 30:

Community Disaster Loans	Interest Differential	Defaults	Other	Total
2021	$ 7	$ 1	$ 146	$ 154
2020	$ 3	$ -	$ 93	$ 96

The Other amount represents increased disbursement activity associated with P.L.115-72 which provided FEMA authority to lend to those areas affected by Hurricanes Harvey, Irma, and Maria as discussed above.

Direct Loan Modifications and Re-estimates:

Community Disaster Loans	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
2021	$ -	$ -	$ 85	$ 85
2020	$ -	$ -	$ 5	$ 5

Total Direct Loan Subsidy Expense

	2021	2020
Community Disaster Loans	$ 239	$ 101

E. Direct Loan Subsidy Rates at September 30 (in millions):

The direct loan subsidy rates, by program, are as follows:

	2021 Community Disaster Loans	2020 Community Disaster Loans
Interest Subsidy Cost	1.94%	8.66%
Default Costs	0.58%	0.63%
Other	77.88%	65.32%
Total	80.40%	74.61%

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates. The interest subsidy cost decrease is due to updated cash flows where projected repayments increased more than projected disbursements.

Default costs include the projected default amounts based on Moody's default curve for years six to ten.

The Other line represents the subsidy rates for direct loans that are partially cancelled or cancelled in full if specified conditions are met. Historically, a high percentage of the borrowers have met the conditions for cancellation, thus resulting in a high direct loan subsidy rate. The other subsidy cost increase is due to a higher amount of cancellations on projected cash flows.

F. Schedule for Reconciling Subsidy Cost Allowance Balances at September 30 (in millions):

	2021	2020
Beginning balance of the subsidy cost allowance	$ 609	$ 502
Add subsidy expense for direct loans disbursed during the reporting years by Component:		
Interest rate differential costs	7	3
Other subsidy costs	147	93
Adjustments:		
Loans written off	(1)	(8)
Subsidy allowance amortization	16	14
Ending balance of the subsidy cost allowance before re-estimates	778	604
Add subsidy re-estimate by Component		
Technical/default re-estimate	85	5
Ending balance of the subsidy cost allowance	**$ 863**	**$ 609**

G. Administrative Expenses at September 30 (in millions):

	2021	2020
Community Disaster Loans	**$ 2**	**$ 4**

9. Inventory and Related Property, Net

Inventory and Related Property, Net at September 30 consisted of the following (in millions):

	2021	2020
OM&S		
Items Held for Use	$ 1,581	$ 1,522
Items Held for Future Use	72	74
Items Held for Repair	1,198	1,099
Less: Allowance for Losses	(391)	(395)
Total OM&S, Net	2,460	2,300
Inventory		
Inventory Purchased for Resale	32	34
Less: Allowance for Losses	(7)	(7)
Total Inventory, Net	25	27
Stockpile Materials Held in Reserve	46	57
Total Inventory and Related Property, Net	**$ 2,531**	**$ 2,384**

10. Seized and Forfeited Property

Prohibited seized property item counts as of September 30 and seizure and forfeiture activity for FY 2021 and 2020 are as follows:

For the Fiscal Year Ended September 30, 2021:

Seized Property:	Beginning Balance	New Seizures	Remissions and Adjustments	New Forfeitures	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	-	172,963	47	(173,010)	-
Cocaine	-	134,466	(45)	(134,421)	-
Heroin	-	2,823	(20)	(2,803)	-
Methamphetamine	-	100,810	(420)	(100,390)	-
Khat	-	92,125	-	(92,125)	-
Synthetic Marijuana	-	442	(9)	(433)	-
Fentanyl	-	5,879	(3)	(5,876)	-
Other Drugs	1,963	94,669	(614)	(66,420)	29,598
Firearms and Explosives (in number of case line items)	2,277	4,025	(1,669)	(1,854)	2,779
Counterfeit Currency (US/Foreign, in number of items)	2,849,481	129,571	(1,314,386)	-	1,664,666
Counterfeit Goods (in number of case line items)	40,817	103,950	(5,672)	(97,278)	41,817

Forfeited Property:	Beginning Balance	New Forfeitures	Transfers and Adjustments	Destroyed	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	88,813	173,010	(77,851)	(141,882)	42,090
Cocaine	33,753	134,421	(104,715)	(25,536)	37,923
Heroin	4,852	2,803	(344)	(2,548)	4,763
Methamphetamine	55,313	100,390	33,519	(79,388)	109,834
Khat	5,896	92,125	8,135	(105,539)	617
Synthetic Marijuana	971	433	(10)	(1,159)	235
Fentanyl	3,436	5,876	(371)	(2,350)	6,591
Other Drugs	48,572	66,420	(86,424)	(22,961)	5,607
Firearms and Explosives (in number of case line items)	1,436	1,854	(1,564)	(11)	1,715
Counterfeit Goods (in number of case line items)	23,485	97,278	309	(84,128)	36,944

For the Fiscal Year Ended September 30, 2020:

Seized Property:	Beginning Balance	New Seizures	Remissions and Adjustments	New Forfeitures	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	-	317,576	(47)	(317,529)	-
Cocaine	-	91,388	13	(91,401)	-
Heroin	-	3,133	4	(3,137)	-
Methamphetamine	-	53,135	(148)	(52,987)	-
Khat	-	51,775	-	(51,775)	-
Synthetic Marijuana	-	222	22	(244)	-
Fentanyl	-	2,390	77	(2,467)	-
Other Drugs	1,921	139,631	(31,152)	(108,437)	1,963
Firearms and Explosives (in number of case line items)	2,289	3,798	(1,954)	(1,856)	2,277
Counterfeit Currency (US/Foreign, in number of items)	3,368,343	7,124,731	(7,643,593)	-	2,849,481
Counterfeit Goods (in number of case line items)	40,120	78,562	(9,896)	(67,969)	40,817

Forfeited Property:	Beginning Balance	New Forfeitures	Transfers and Adjustments	Destroyed	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	90,623	317,529	(146,615)	(172,724)	88,813
Cocaine	57,874	91,401	(67,548)	(47,974)	33,753
Heroin	5,452	3,137	(764)	(2,973)	4,852
Methamphetamine	49,592	52,987	(4,450)	(42,816)	55,313
Khat	1,763	51,775	369	(48,011)	5,896
Synthetic Marijuana	1,463	244	(132)	(604)	971
Fentanyl	2,570	2,467	(21)	(1,580)	3,436
Other Drugs	35,751	108,437	(60,639)	(34,977)	48,572
Firearms and Explosives (in number of case line items)	1,227	1,856	(1,503)	(144)	1,436
Counterfeit Goods (in number of case line items)	20,725	67,969	370	(65,579)	23,485

This schedule is presented for prohibited (non-valued) seized and forfeited property. These items are retained and ultimately destroyed by CBP and USSS and are not transferred to the Treasury's forfeiture fund or other federal agencies.

Illegal drugs consist of tested and verified controlled substances as defined per the Controlled Substances Act. Illegal drugs are presented in kilograms, and a portion of the weight includes packaging, which often cannot be reasonably separated from the weight of the drugs since the packaging must be maintained for evidentiary purposes. Schedule I and II drugs are presented as summarily forfeited[6]. Other drugs include insignificant amounts of controlled substances that do not warrant being isolated to an individual category.

The ending balance for firearms includes only those seized items that can actually be used as firearms. Firearms are presented in number of case line items, which represent different types of firearms seized as part of a case. Counterfeit goods include clothing, footwear, jewelry, electronic equipment, movies, media, identification documents, and other items. Counterfeit goods are presented in number of case line items. USCG and ICE also seize and take temporary possession of small boats, equipment, general property, firearms, contraband, and illegal drugs. CBP maintains the seized property on behalf of USCG and ICE, and transfers nonprohibited seized property to the Treasury forfeiture fund.

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

USSS counterfeit currency includes notes received from external sources or seized during investigations. Counterfeit currency is presented in number of notes, and represents notes maintained in USSS, including items that are pending destruction. All items are maintained in a secured location until the items reach their eligible destruction date. Counterfeit currency ending balances decrease when notes are destroyed, or when a counterfeit note is reclassified as an educational note.

[6] Summarily forfeited refers to when a drug is seized and processed, it is immediately forfeited to the government not requiring further administrative or judicial action.

11. General Property, Plant, and Equipment, Net

General PP&E, Net consisted of the following (in millions):

As of September 30, 2021:	Useful Life	Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	$ 322	N/A	$ 322
Improvements to Land	2-50 yrs	2,445	1,088	1,357
Construction in Progress	N/A	6,649	N/A	6,649
Buildings, Other Structures and Facilities	10-50 yrs	9,065	5,010	4,055
Equipment:				
Information Technology Equipment	5 yrs	739	619	120
Aircraft	20 yrs	6,829	3,668	3,161
Vessels	5-30 yrs	11,896	4,891	7,005
Vehicles	5-15 yrs	1,189	960	229
Other Equipment	5-15 yrs	7,866	5,641	2,225
Assets Under Capital Lease	2-20 yrs	69	64	5
Leasehold Improvements	2-50 yrs	3,050	2,008	1,042
Internal Use Software	2-13 yrs	5,489	4,147	1,342
Internal Use Software - in Development	N/A	381	N/A	381
Total General Property, Plant, and Equipment, Net		**$ 55,989**	**$ 28,096**	**$ 27,893**

As of September 30, 2020:	Useful Life	Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	$ 308	N/A	$ 308
Improvements to Land	2-50 yrs	2,607	1,138	1,469
Construction in Progress	N/A	5,835	N/A	5,835
Buildings, Other Structures and Facilities	10-50 yrs	8,924	4,868	4,056
Equipment:				
Information Technology Equipment	5 yrs	835	620	215
Aircraft	20 yrs	6,608	3,483	3,125
Vessels	5-30 yrs	11,004	4,608	6,396
Vehicles	5-15 yrs	1,071	848	223
Other Equipment	5-15 yrs	7,759	5,442	2,317
Assets Under Capital Lease	2-20 yrs	69	60	9
Leasehold Improvements	2-50 yrs	2,820	1,889	931
Internal Use Software	2-13 yrs	5,165	3,934	1,231
Internal Use Software - in Development	N/A	446	N/A	446
Total General Property, Plant, and Equipment, Net		**$ 53,451**	**$ 26,890**	**$ 26,561**

Total PP&E and Accumulated Depreciation Reconciliation:

	FY 2021 Net PP&E	FY 2020 Net PP&E
Beginning Balance of Year	**$ 26,561**	**$ 24,673**
Capitalized Acquisitions	3,445	4,407
Dispositions	(190)	(465)
Transfers in/out without reimbursement	193	-
Revaluations	(56)	57
Less: Depreciation Expense	(2,087)	(2,111)
Donations	39	-
Other	(12)	-
Balance at End of Year	**$ 27,893**	**$ 26,561**

12. Stewardship Property, Plant, and Equipment

DHS's Stewardship PP&E is comprised of items held by DHS. These heritage assets are in the United States and the Commonwealth of Puerto Rico. Collection-type heritage assets are presented in either number of collections or number of individual items, while non-collection-type and multi-use heritage assets are presented in number of individual units. Heritage assets as of September 30 consisted of the following:

2021	Beginning Balance	Additions	Withdrawals	Total
Collection-type Assets				
CBP	2	-	-	2
MGMT	1	-	-	1
S&T	1	-	-	1
TSA	10	-	-	10
USCG	9	-	-	9
USCIS	5	-	-	5
USSS	2	-	-	2
Non-Collection-type Assets				
FLETC	1	-	-	1
S&T	1	49	-	50
USCG	69	-	(1)	68
Multi-use Heritage Assets				
CBP	4	-	-	4
FEMA	1	-	-	1
ICE	1	-	-	1
S&T	-	3	-	3
USCG	96	-	-	96
Total Stewardship PP&E	203	52	(1)	254

2020	Beginning Balance	Additions	Withdrawals	Total
Collection-type Assets				
CBP	2	-	-	2
MGMT	1	-	-	1
S&T	1	-	-	1
TSA	10	-	-	10
USCG	9	-	-	9
USCIS	5	-	-	5
USSS	2	-	-	2
Non-Collection-type Assets				
FLETC	1	-	-	1
S&T	1	-	-	1
USCG	69	-	-	69
Multi-use Heritage Assets				
CBP	4	-	-	4
FEMA	1	-	-	1
ICE	1	-	-	1
S&T	-	-	-	-
USCG	96	-	-	96
Total Stewardship PP&E	203	-	-	203

The Department's Stewardship PP&E consists of documents, historical artifacts, immigration and naturalization files, artwork, buildings, and structures, which are unique due to historical, cultural, artistic, or architectural significance, and are used to preserve and provide an education on the Department's history and tradition. Generally, these heritage assets are not included in general PP&E presented on the Balance Sheet. Components define collection-type assets as either individual items, or an aggregate of items grouped by location or category, depending on mission, types of assets, materiality considerations, and how the Component manages the assets. Additions are derived from many sources, including gifts from current or former personnel or the general public, bequests, and transfers from other federal agencies. As assessments are made of heritage assets, individual items are withdrawn from a collection when they have deteriorated through damage due to moving and transportation, storage or display, or environmental degradation. Individual items are also withdrawn when curatorial staff determines that an artifact does not meet the needs of the collection, or the characteristics of a heritage asset.

Collection-type Heritage Assets. The Department classifies items maintained for exhibition or display as collection-type heritage assets. As the lead agency ensuring a safe, secure, and resilient homeland, the Department uses this property for the purpose of educating individuals about its history, mission, values, and culture.

CBP collection-type heritage assets are categorized and grouped into two collections: archival materials and artifacts. Archival materials include dated port records, CBP regulations, and ledgers of Collectors of Customs. Artifacts include antique scales, dated pictures of Customs inspectors, aged tools used to sample imported commodities such as wood bales and bulk grain, and dated Customs uniforms, badges, and stamps.

MGMT has one collection-type heritage asset, the World Trade Center Façade, which was received from TSA. It is kept at the DHS Headquarters Gallery at St. Elizabeth to educate visitors why TSA was established.

S&T maintains one collection-type heritage asset—the fourth-order Fresnel lens from the historic Plum Island lighthouse. The lens was an integral part of the Plum Island lighthouse, which is listed in the National Register of Historic Places. The lens is on loan for display at the East End Seaport Museum in Greenport, New York.

TSA collection-type heritage assets include five architectural or building artifacts, and five aviation security technology items. The architectural or building artifacts include a collection of concrete pieces that belonged to the western wall of the Pentagon, a collection of subway rails from the Port Authority Trans-Hudson subway station located below the World Trade Center, and three individual artifacts related to both the steel structure and facade of the World Trade Center Towers that were destroyed by the terrorist attacks of September 11, 2001. The five aviation security technology items include two walk-through metal detectors, two X-ray machines, and an explosives trace detection portal machine. These items are preserved as aviation security technology equipment that was used to screen the individuals who carried out the September 11, 2001 terrorist attacks. As the lead agency protecting the Nation's transportation systems to ensure freedom of movement for people and commerce, TSA uses this property for the purpose of educating individuals about its history, mission, values, and culture.

USCG collection-type heritage assets are defined by groups of items categorized as artifacts, artwork, and display models, located at USCG Headquarters, the USCG Academy, and all other locations, such as field units. Each collection of the three types of assets located at the three aforementioned locations is considered one collection-type asset. Artifacts include ships' equipment (sextants, bells, binnacles, etc.), decommissioned aids-to-navigation and communication equipment (buoy bells, lighthouse lenses, lanterns, etc.), personal-use items (uniforms and related accessories), and ordnance (cannons, rifles, and Lyle guns). Artwork consists of the USCG's collection of World War II combat art, as well as modern art depicting both historical and modern USCG activities. Display models are mostly of USCG vessels and aircraft. These are often builders' models acquired by the USCG as part of the contracts with the ship or aircraft builders.

USCIS collection-type heritage assets consist of an archive of five collections of different types of immigration and naturalization files that can be used to trace family lineages. USCIS has established the USCIS Genealogy Program to allow the public access to the records on a fee-for-service basis. Archived records available through the USCIS Genealogy Program include naturalization certificate files, alien registration forms, visa files, registry files, as well as alien files numbered below eight million and documents dated prior to May 1951.

USSS collection-type heritage assets are categorized into a collection of historical artifacts—including records, photographs, documents, and other items pertaining to the history of the USSS—and a collection of historical vehicles pertaining to the history of presidential transportation. Historical artifacts are maintained, stored, or displayed in the USSS archives and in the Secret Service Exhibit Hall. The vehicles are displayed at the James J. Rowley Training Center in Laurel, Maryland, or on loan to Presidential libraries. These items are used to educate employees and their guests about the USSS's integrated missions of investigations and protection.

Non-Collection-type Heritage Assets. The Department also maintains non-collection-type heritage assets that are unique for historical or natural significance, as well cultural, educational, or artistic importance.

FLETC non-collection-type heritage assets consist of a memorial associated with the World Trade Center located in Glynco, Georgia. The memorial integrates a piece of steel from the World Trade Center's steel structure into the overall design. The memorial is the primary site for student graduations from the FLETC, and also a venue for various special events, linking the FLETC mission and training efforts to this past tragedy.

S&T non-collection-type heritage assets consist of the Plum Island Lighthouse and Fort Terry Historic District, located in the Plum Island, Suffolk County, New York. The Plum Island Lighthouse and Fort Terry Historic District are listed on the National Register of Historic Places.

USCG non-collection-type heritage assets include buildings, structures, sunken vessels, and aircraft. Buildings and structures such as lighthouses and monuments are classified as non-collection-type heritage assets in accordance with SFFAS No. 29, *Heritage Assets and Stewardship Land*. Sunken vessels and aircraft are classified as non-collection-type heritage assets, as stipulated in the property clause of the U.S. Constitution, Articles 95 and 96 of the International Law of the Sea Convention, Sunken Military Craft Act, and the sovereign immunity provisions of admiralty law. Despite the passage of time or the physical condition of these assets, they remain government-owned until the Congress of the United States formally declares them abandoned. The USCG desires to retain custody of these assets to safeguard the remains of crew members lost at sea, to prevent the unauthorized handling of explosives or ordnance that may be aboard, and to preserve culturally valuable artifacts of the USCG.

Multi-Use Heritage Assets. When heritage assets are functioning in operational status, the Department classifies these as multi-use heritage assets in accordance with SFFAS No. 6, *Accounting for Property, Plant and Equipment*. All multi-use heritage assets are reflected on the

Balance Sheet as general PP&E and are depreciated over their useful life. Some examples are historic lighthouses and buildings still in use. Deferred maintenance and condition information for heritage assets and general PP&E are presented in the required supplementary information. When multi-use heritage assets are no longer needed for operational purposes, they are reclassified as heritage assets, where most are transferred to other government agencies or public entities.

CBP has four multi-use heritage assets located in Puerto Rico, which consist of customs houses that facilitate the collection of revenue for the Department.

FEMA has one multi-use heritage asset, the National Emergency Training Center, which is used by the Emergency Management Institute and the U.S. Fire Administration's National Fire Academy for training in Emmitsburg, Maryland.

ICE has one multi-use heritage asset, a property consisting of 3.2 acres located along the southern coastline of the island of Oahu, in Honolulu, Hawaii. The ICE Honolulu Facility is a historic site included in the National Register of Historic Places.

S&T has three multi-use heritage assets which consist of the motor pool, duty officer's quarters, and the fire station, located in the Plum Island Fort Terry Historic District, Suffolk County, New York.

USCG possesses a wide range of multi-use heritage assets, such as buildings, structures, and lighthouses that have historical and cultural significance.

13. Other Assets

Other Assets at September 30 consisted of the following (in millions):

	2021	2020
Intragovernmental:		
Advances and Prepayments	$ 739	$ 862
Total Intragovernmental	**739**	**862**
With the Public:		
Advances and Prepayments	922	964
Other Assets	2	2
Total With the Public	**924**	**966**
Total Other Assets	**$ 1,663**	**$ 1,828**

14. Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources at September 30 consisted of the following (in millions):

	2021	2020
Intragovernmental:		
Debt (Note 15)	$ 20,525	$ 20,525
Accrued FECA Liability (Note 18)	404	414
Other	171	144
Total Intragovernmental	21,100	21,083
With the Public:		
Federal Employee and Veteran Benefits Payable:		
Accrued Payroll and Benefits	2,044	1,958
Actuarial FECA Liability (Note 16)	2,532	2,495
Military Service and Other Retirement Benefits (Note 16)	70,941	67,319
Environmental and Disposal Liabilities (Note 17)	627	620
Contingent Legal Liabilities (Note 21)	419	381
Capital Lease Liability (Note 19)	8	13
Other	59	89
Total With the Public	76,630	72,875
Total Liabilities Not Covered by Budgetary Resources	97,730	93,958
Total Liabilities Not Requiring Budgetary Resources	8,532	7,233
Liabilities Covered by Budgetary Resources	24,308	32,240
Total Liabilities	**$ 130,570**	**$ 133,431**

The Department anticipates that the portion of the Liabilities Not Covered by Budgetary Resources listed above will be funded from future budgetary resources when required. Total Liabilities Not Requiring Budgetary Resources represents liabilities for clearing accounts, non-fiduciary deposit funds, and custodial collections, including amounts due to the general fund. The remaining liabilities are substantially covered by current budgetary resources.

15. *Federal Debt and Interest Payable*

Debt at September 30 and activity for fiscal years ended FY 2021 and 2020 consisted of the following (in millions):

Debt to the Treasury General Fund:	**2021**	**2020**
NFIP:		
Beginning Balance	$ 20,525	$ 20,525
New Borrowing	-	-
Interest Payable	-	-
Canceled Debt	-	-
Ending Balance	**20,525**	**20,525**
DADLP (Credit Reform):		
Beginning Balance	71	71
New Borrowing	37	19
Interest Payable	-	-
Repayments	(15)	(19)
Ending Balance	**93**	**71**
Total Debt	**$ 20,618**	**$ 20,596**

The Department's intragovernmental debt is owed to Treasury and consists of borrowings to finance FEMA's NFIP and DADLP.

NFIP debt can have up to a ten-year term. Interest rates are obtained from Treasury and range by cohort year from 0.125% to 2.375% as of September 30, 2021, and from 1.625% to 2.875% as of September 30, 2020. Interest is paid semi-annually on March 31 and September 30. The total interest paid for the year was $357 million and $438 million as of September 30, 2021 and 2020, respectively. Interest is accrued based on the debt balances reported. Principal repayments are permitted any time during the term of the debt. At maturity, the debt may be repaid or refinanced. The debt and interest payments are financed by the flood premiums from policyholders. Given the current rate structure, FEMA will not be able to pay its debt from the premium revenue alone; therefore, FEMA does not anticipate repaying the debt in full.

In accordance with the requirements established by the Biggert-Waters Flood Insurance Reform Act of 2012, FEMA reports on the status of the debt; interest paid since 2005, and principal repayments to OMB and Congress on a quarterly basis. These requirements established a quarterly reporting requirement for the Reserve Ratio Requirement. There is a separate report for debt, interest, and principal repayments, where reports are due on a semi-annual basis.

Under Credit Reform, the unsubsidized portion of debt is borrowed from Treasury. The repayment terms of FEMA's borrowing are based on the life of each cohort of debt. Proceeds from collections of principal and interest from the borrowers are used to repay Treasury. In addition, an annual re-estimate is performed to determine any change from the original subsidy rate. If an upward re-estimate is determined to be necessary, these funds are available through permanent indefinite authority, which is to be approved by OMB. Once these funds are appropriated, the original borrowings are repaid to Treasury. The weighted average interest rates for FY 2021 and FY 2020 were 1.99% and 3.51%, respectively. For additional information, see Note 23, Available Borrowing Authority.

16. *Federal Employee and Veteran Benefits* Payable

Accrued liability for military service and other retirement and employment benefits at September 30 consisted of the following (in millions):

	2021	2020
USCG Military Retirement and Healthcare Benefits	$ 66,464	$ 62,819
USSS Uniformed Division and Special Agent Pension	4,477	4,500
Actuarial FECA Liability	2,532	2,495
Other	2,097	2,021
Total Federal Employee and Veteran Benefits Payable	**$ 75,570**	**$ 71,835**

A. Reconciliation of Beginning and Ending Liability Balances for Pensions and ORB

The reconciliation of beginning and ending liability balances for pensions and ORB for the year ended September 30 consisted of the following (in millions):

For the Year Ended September 30, 2021:	USCG Military Retirement System	USCG Military Health System	USSS Uniformed Division and Special Agent Pension	Total
Beginning Liability Balance:	$ 55,439	$ 7,380	$ 4,500	$ 67,319
Expenses:				
Normal Cost	1,786	405	-	2,191
Interest on the Liability Balance	1,703	221	111	2,035
Actuarial Losses/(Gains):				
From Experience	(83)	(34)	58	(59)
From Assumption Changes	1,377	121	75	1,573
Other	-	-	1	1
Total Expense	4,783	713	245	5,741
Less Amounts Paid	1,583	268	268	2,119
Ending Liability Balance	**$ 58,639**	**$ 7,825**	**$ 4,477**	**$ 70,941**

For the Year Ended September 30, 2020:	USCG Military Retirement System	USCG Military Health System	USSS Uniformed Division and Special Agent Pension	Total
Beginning Liability Balance:	$ 50,870	$ 6,575	$ 4,567	$ 62,012
Expenses:				
Normal Cost	1,643	381	-	2,024
Interest on the Liability Balance	1,743	227	123	2,093
Actuarial Losses/(Gains):				
From Experience	41	50	(28)	63
From Assumption Changes	2,552	408	101	3,061
Prior Service Costs	127	-	-	127
Other	-	-	2	2
Total Expense	6,106	1,066	198	7,370
Less Amounts Paid	1,537	261	265	2,063
Ending Liability Balance	**$ 55,439**	**$ 7,380**	**$ 4,500**	**$ 67,319**

USCG Military Retirement System and Military Health System. The USCG's military service members (both current active component and reserve component) participate in the MRS. The USCG receives an annual "Retired Pay" appropriation to fund MRS benefits. The retirement system allows voluntary retirement with retired pay and benefits for active component members upon credit of at least 20 years of active service at any age. Reserve component members may retire after 20 years of creditable service with retired pay and health benefits beginning at age 60. Reserve component members may qualify for retired pay at an earlier age (but not earlier than age 50) if they perform certain active service after January 28, 2008.

The NDAA for FY 2021 (P.L. 116-283) was enacted in 2021 and included a major change for the USCG, authorizing the payment of USCG's MRS retirement benefits from the DoD Military Retirement Fund by October 1, 2022. It is anticipated that the USCG MRS actuarial accrued liability will be transferred to DoD by October 1, 2022.

The USCG's MHS is a post-retirement medical benefit plan that covers all active component and reserve component members of the USCG. The accrued MHS liability is for the healthcare of non-Medicare eligible retirees and beneficiaries. Effective October 1, 2002, the USCG transferred its liability for the healthcare of Medicare eligible retirees/beneficiaries to the DoD MERHCF, which was established to finance the healthcare benefits for the Medicare-eligible beneficiaries of all DoD and non-DoD uniformed services.

Actuarial accrued liabilities represent retired pay for retirees and healthcare benefits for non-Medicare eligible retirees/survivors. The present value of future benefits is the actuarial present value of the future payments that are expected to be paid under the retirement plan's provisions. Credited service is the years of service from active duty base date (or constructive date in the case of active duty reservists) to date of retirement measured in years and completed months. The actuarial accrued liability is the portion of the present value of the future benefits expected to be paid that is attributed to past service (service by participants rendered prior to the date of determination). USCG plan participants may retire after 20 years of active service at any age with annual benefits equal to 2.5% of retired base pay for each year of creditable active service under the legacy retirement program; the formula is 2% for those covered under BRS. The retired pay base depends upon the date of initial entry into military service (DIEMS). For DIEMS of September 8, 1980, or later, the retired pay base would be the mean of the highest 36 months of basic pay earned (or would have earned if on active duty). For DIEMS of September 7, 1980, or earlier, the retired pay base would be the basic pay rate in effect on the first day of retirement (if a commissioned officer or an enlisted member) or the basic pay rate in effect on the last day of active duty before retirement (if a warrant officer).

If a USCG member is disabled, the member is entitled to disability benefits, provided (1) the disability is at least 30% under a Department of Veterans Affairs (VA) Schedule of Rating Disability and (2) the disability results from injuries or illnesses incurred in the line of duty. Disability retired pay is equal to the basic pay (as of the separation date) multiplied by the larger of the VA disability rating or 2.5% times the years of creditable service (2% for members covered under the BRS).

In FY 2021, several changes were made to the USCG actuarial assumptions. The major changes include (1) decrease of the current discount rate from 3.20% to 2.95% resulting in a liability increase of $2.56 billion, (2) decrease of assumed cost of living adjustments and future salary increases resulting in a liability decrease of $477 million, and (3) use of updated DoD Mortality Improvement Tables and Active Base rates, resulting in a liability decrease of $703 million.

The significant actuarial assumptions used to compute the accrued pension and healthcare liability at September 30, 2021, are as follows:

1. For active duty members and reserves, USCG uses the DoD assumption; an 80% male/20% female blend of the MP-2020 Mortality Improvement Scale developed by the Society of Actuaries. For military retirees and annuitants, USCG uses the DoD Mortality Improvement tables. Disability, withdrawal, and retirement tables reflecting actual USCG experience were developed based on a USCG experience study dated April 28, 2020.
2. Cost of living increases for the retirement plan are 2.17%, based on a ten-year average of the Treasury Breakeven Inflation yield curve, which combines other Treasury rates to estimate the rate of inflation.
3. Healthcare cost increase assumptions are based on the annual liability report provided by DoD and vary, depending on the year and type of care.
4. The discount rate percent is determined in accordance with SFFAS No. 33 and is calculated independently for pensions and healthcare. The current discount rate is 2.95% for the retirement system and 2.85% for the health system.
5. Rates of salary increases are determined similarly to Cost of Living increases and are equal to 2.17%. This is in addition to assumed Merit Pay increases that reflect longevity increases, promotions, and advancements. The Merit Pay Table was modified in 2020, using actual USCG experience over the past six years.
6. Post-Retirement health benefit assumptions include a single equivalent medical cost trend rate of 3.88% and an ultimate medical trend rate of 3.60% after 25 years.
7. The FY 2021 valuation was prepared as of September 30, 2020 using economic assumptions based on a ten-year average to include the ending discount rate at June

30, 2021, including a general salary increase assumption that was modified to not fall below the assumed annual cost of living assumption. Results were projected to the end of the fiscal year, September 30, 2021, to include the ending discount rate at September 30, 2021.

Comparatively, the significant actuarial assumptions used to compute the accrued pension and healthcare liability at September 30, 2020, were as follows:

1. For active duty members and reserves, USCG uses the MP-2016 Mortality Improvement Scale developed by the Society of Actuaries. For military retirees and annuitants, USCG uses the DoD Mortality Improvement tables. Disability, withdrawal, and retirement tables reflecting actual USCG experience were developed based on an USCG experience study dated April 28, 2020.
2. Cost of living increases for the retirement plan are 2.22%, based on a ten-year average of the Treasury Breakeven Inflation yield curve, which combines other Treasury rates to estimate the rate of inflation.
3. Healthcare cost increase assumptions are based on the annual liability report provided by DoD and vary, depending on the year and type of care.
4. The discount rate percent is determined in accordance with SFFAS No. 33 and is calculated independently for pensions and healthcare. The current discount rate is 3.20% for the retirement system and 3.12% for the health system.
5. Rates of salary increases are 2.22% annually, based on a ten-year average of military pay increases, but with a floor set equal to the assumed cost-of-living. This is in addition to assumed Merit Pay increases that reflect longevity increases, promotions, and advancements. The Merit Pay Table was modified in 2020, using actual USCG experience over the past six years.
6. The FY 2020 valuation was prepared as of June 30, 2020 using economic assumptions based on a ten-year average to include the ending discount rate at June 30, 2020, including a general salary increase assumption that was modified to not fall below the assumed annual cost-of-living assumption. Results were projected to the end of the fiscal year, September 30, 2020, to include the ending discount rate at September 30, 2020.
7. Post-Retirement health benefit assumptions include a single equivalent medical cost trend rate of 3.85% and an ultimate medical trend rate of 4.05% after 25 years.

USSS Uniformed Division and Special Agent Pension. Special agents and other USSS personnel in certain job series hired as civilians before January 1, 1984, are eligible to transfer to the District of Columbia Police Officers' and Firefighters' Retirement Plan (DC Pension Plan) after completion of ten years of USSS employment and ten years of protection-related experience. This plan also includes beneficiaries and dependents. All uniformed USSS officers who were hired before January 1, 1984, are automatically covered under this retirement system. Participants in the Uniformed Division and Special Agent Pension Plan make contributions of 7% of base pay with no matching contribution made by USSS. Annuitants of this plan receive benefit payments directly from the DC Pension Plan. The benefits for this plan are not currently prefunded and the USSS has no segregated plan assets. Each year's contribution equals the benefits paid from the plan. USSS reimburses the District of Columbia for the difference between benefits provided to the annuitants and payroll contributions received from current employees. This liability is presented as a component of the liability for Federal Employee and Veteran Benefits Payable in the accompanying Balance Sheet. SFFAS No. 5 requires the administrative entity (administrator) to report the actuarial liability. However, USSS records a liability because the administrator (the DC Pension Plan) is not a federal entity and as such the liability for future funding would not otherwise be recorded in the government-wide consolidated financial statements.

The primary actuarial assumptions used to determine the liability at September 30, 2021, are as follows:

1. The mortality assumption is based on the OPM non-U.S. Postal Service (USPS) mortality tables projected using the OPM projection scale. There are separate healthy and disabled annuitant tables.
2. The equalization pay is equal to the greater of:
    - the average of the last ten equalization pays for each category (General Service (GS), Uniformed Division (UD), and Senior Executive Service (SES)), or
    - Consumer Price Index assumption as determined by the Treasury Breakeven Inflation (TBI) yield curve.

   All annuitants were coded as GS, UD, or SES. This year's valuation data was the first time that SES annuitants were identified in the data. The average equalization pay over the last ten years was 1.45% for the GS group, 1.54% for the UD group, and 1.97% for the SES group. The ten-year average equalization pays for the all three groups are less than the Consumer Price Index (CPI) assumption derived from a ten-year average (same period as the discount rate) of the TBI curve of 2.02%. The equalization pay assumption decreased from 2.07% for all annuitants to 2.02%.
3. The assumption for future survivors' cost of living awards was based on the implicit ten-year average inflation assumption built into Treasury security prices plus the average number of survivor Cost of Living Allowance (COLA) awards over the last ten years. The implicit inflation from Treasury securities is derived from a ten-year average of the Treasury Breakeven Inflation (TBI) curve. Each time a three percent award is granted, an extra 100 basis points are added to the COLA award. Because there were four such awards over the last ten years, we added 40 basis points to the results. The basis point adjustment is reviewed annually based on the number of COLA awards over the past ten years. The COLA for survivors is 2.42%.
4. The discount rate calculated in accordance with SFFAS No. 33 is 2.47%. The methodology in calculating this rate uses a ten-year Treasury average ending June 30 of the fiscal year. This is consistent with DoD, OPM, and the USCG. The rounding of the discount rate is to the nearest 0.01%.
5. Rates of salary increases are 0% annually because the vast majority of plan participants have already retired. All remaining active participants are assumed to retire immediately.
6. 85% of participants are assumed to have a spouse eligible for death benefits at the time of the commencement of benefits.
7. The installment benefit payable upon the death of a retired participant is 40% basic pay for the highest amounts, adjusted for cost-of-living increases if death occurs after retirement.

Comparatively, the primary actuarial assumptions used to determine the liability at September 30, 2020, are as follows:

1. The mortality assumption is based on the OPM non-USPS mortality tables projected using the OPM projection scale. There are separate healthy and disabled annuitant tables.

2. The equalization pay is equal to the greater of
    - the average of the last ten equalization pays for each category (General Service (GS), Uniformed Division (UD), and Senior Executive Service (SES)), or
    - Consumer Price Index assumption as determined by the Treasury Breakeven Inflation (TBI) yield curve.

   All annuitants were coded as GS or UD. There were no annuitants coded SES in the data. The average equalization pay over the last ten years was 1.35% for the GS group and 1.44% for the UD group. The ten-year average equalization pays for the GS and UD groups are both less than the CPI assumption derived from a ten-year average (same period as the discount rate) of the TBI curve of 2.07%. The equalization pay assumption is 2.07% for all annuitants.
3. The assumption for future survivors' cost of living awards was based on the implicit ten-year average inflation assumption built into Treasury security prices plus the average number of survivor Cost of Living Allowance (COLA) awards over the last ten years. The implicit inflation from Treasury securities is derived from a ten-year average of the Treasury Breakeven Inflation (TBI) curve. Each time three percent award is granted, an extra 100 basis points are added to the COLA award. Because there were five such awards over the last ten years, we added 50 basis points to the results. The basis point adjustment is reviewed annually based on the number of COLA awards over the past ten years. The COLA for survivors is 2.57%. As for the discount rate determination, the rounding of the COLA is to the nearest 0.01%.
4. The discount rate calculated in accordance with SFFAS No. 33 is 2.73%. The methodology in calculating this rate uses a ten-year Treasury average ending June 30 of the fiscal year. This is consistent with DoD, OPM, and the USCG. The rounding of the discount rate is to the nearest 0.01%.
5. Rates of salary increases are 0% annually because the vast majority of plan participants have already retired. All remaining active participants are assumed to retire immediately.
6. Family composition assumption used to determine survivor benefits is 85% based on the probability of marriage at commencement of benefits. Retired participants are assumed to have no eligible children.
7. The installment benefit payable upon the death of a retired participant is 40% of final pay, adjusted for cost-of-living increases if death occurs after retirement.

B. Actuarial FECA Liability

The actuarial FECA liability represents the estimated liability for future workers' compensation and includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. Future workers' compensation estimates for the future cost of approved compensation cases, which are generated from an application of actuarial procedures developed by DOL, were approximately $2,532 million and $2,495 million at September 30, 2021 and 2020, respectively.

17. Environmental and Disposal Liabilities

Environmental and Disposal Liabilities at September 30, 2021 and 2020 are $628 million and $622 million, respectively. The Department is responsible for remediating its sites with environmental contamination and is party to various administrative proceedings, legal actions,

and tort claims that may result in settlements or decisions adverse to the Federal Government. The source of remediation requirements to determine the environmental liability is based on compliance with federal, state, or local environmental laws and regulations. The major federal laws covering environmental response, cleanup, and monitoring are the *Comprehensive Environmental Response, Compensation and Liability Act of 1980* (P.L. 96-510) and the *Resource Conservation and Recovery Act* (P.L. 94-580).

The Department's environmental liabilities are due to light stations, lighthouses, long-range navigation, fuel storage tanks, underground storage tanks, buildings containing asbestos and/or lead-based paint, firing ranges, fuels, solvents, industrial chemicals, and other environmental cleanup associated with normal operations. Asbestos-related liabilities are those for the abatement of both friable and nonfriable asbestos.

Cost estimates for environmental and disposal liabilities are subject to revision as a result of changes in inflation, technology, environmental laws and regulations, and plans for disposal.

18. Other Liabilities

Other Liabilities consisted of the following (in millions):

As of September 30, 2021:	Current	Non-Current	Total
Intragovernmental:			
Advances from Others	$ 123	$ -	$ 123
Accrued FECA Liability (Note 14)	153	251	404
Employer Contributions and Payroll Taxes	332	-	332
Other Liabilities (Without Reciprocals)			
Employer Contributions and Payroll Taxes	83	-	83
Other Unfunded Employment Related Liability	10	-	10
Liability for Clearing Accounts	(47)	-	(47)
Due to the General Fund (Note 14)	8,052	-	8,052
Due to Other than General Fund	145	-	145
Other Liabilities			
Other Post Employment Benefits Due and Payable	66	-	66
Other Unfunded Employment Related Liability	3	-	3
Total Intragovernmental Other Liabilities	**$ 8,920**	**$ 251**	**$ 9,171**

With the Public:			
Accrued Liability for COVID-19 Funeral Assistance Program (See B. below)	$ 3,217	$ -	$ 3,217
Accrued Liability for Lost Wages Assistance Program (See B. below)	1,575	-	1,575
Accrued Funded Payroll and Leave (See B. below)	1,525	-	1,525
Deferred Revenue and Advances from Others (See B. below)	3,318	619	3,937
Contingent Legal Liabilities (Note 21)	281	140	421
Capital Lease Liability (Note 19)	6	2	8
Refunds and Drawbacks	663	-	663
Other Liabilities			
Contract Holdbacks	30	21	51
Other Liabilities with Related Budgetary Obligations	1,161	-	1,161
Liability for Nonfiduciary Deposit Funds and Undeposited Collections	747	1,672	2,419
Liability for Clearing Accounts	(10)	-	(10)
Custodial Liability	397	-	397
Other Liabilities without Related Budgetary Obligations	105	72	177
Total Other Liabilities With the Public	**$ 13,015**	**$ 2,526**	**$ 15,541**
Total Other Liabilities	**$ 21,935**	**$ 2,777**	**$ 24,712**

As of September 30, 2020:	Current	Non-Current	Total
Intragovernmental:			
Advances from Others	$ 105	$ -	$ 105
Accrued FECA Liability (Note 14)	156	258	414
Employer Contributions and Payroll Taxes	288	-	288
Other Liabilities (Without Reciprocals)			
Employer Contributions and Payroll Taxes	76	-	76
Other Unfunded Employment Related Liability	9	-	9
Liability for Clearing Accounts	73	-	73
Due to the General Fund (Note 14)	6,773	-	6,773
Due to Other than General Fund	269	-	269
Other Liabilities			
Other Post Employment Benefits Due and Payable	67	3	70
Other Unfunded Employment Related Liability	10	-	10
Total Intragovernmental Other Liabilities	**$ 7,826**	**$ 261**	**$ 8,087**
With the Public:			
Accrued Liability for Lost Wages Assistance Program (See B. below)	$ 15,132	$ -	$ 15,132
Accrued Funded Payroll and Leave (See B. below)	1,383	-	1,383
Deferred Revenue and Advances from Others (See B. below)	2,716	447	3,163
Contingent Legal Liabilities (Note 21)	356	127	483
Capital Lease Liability (Note 19)	6	7	13
Refunds and Drawbacks	552	-	552
Other Liabilities			
Contract Holdbacks	58	13	71
Other Liabilities with Related Budgetary Obligations	508	-	508
Liability for Nonfiduciary Deposit Funds and Undeposited Collections	702	1,667	2,369
Liability for Clearing Accounts	(144)	-	(144)
Custodial Liability	257	-	257
Other Liabilities without Related Budgetary Obligations	164	102	266
Total Other Liabilities With the Public	**$ 21,690**	**$ 2,363**	**$ 24,053**
Total Other Liabilities	**$ 29,516**	**$ 2,624**	**$ 32,140**

A. Intragovernmental Other Liabilities

Due to the General Fund. Amounts due to the Treasury general fund primarily represent duty, tax, and fees collected by CBP to be remitted to various general fund accounts maintained by Treasury.

Workers' Compensation. Claims incurred for the benefit of Department employees under FECA are administered by DOL and are ultimately paid by the Department. The accrued FECA liability represents money owed for current claims. Reimbursement to DOL for payments made occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intragovernmental liability are made available to the Department as part of its annual appropriation from Congress in the year in which the reimbursement takes place. Workers' compensation expense was $207 million and $209 million, respectively, for the fiscal years ended September 30, 2021 and 2020.

B. Other Liabilities With the Public

Accrued liabilities for COVID-19 Funeral Assistance Program. This liability represents unpaid obligations related to FEMA's funeral assistance program to reimburse an individual or household to meet COVID-19 related funeral expenses under section 408(e)(1) of the Robert T. Stafford Disaster Relief Fund and Emergency Assistance Act (42 U.S.C. 5174 (e)(1)), for which the Federal cost share shall be 100 percent. For additional information, see Note 31, COVID-19 Activity.

Accrued liabilities for Lost Wages Assistance Program. This liability represents unpaid obligations related to FEMA's Lost Wages Assistance Program. For additional information, see Note 31, COVID-19 Activity.

Accrued Funded Payroll and Leave. Accrued Funded Payroll and Leave at September 30 consisted of the following (in millions):

	2021	2020
Accrued Funded Payroll and Benefits	$ 1,436	$ 1,299
Other	89	84
Total Accrued Funded Payroll and Leave	**$ 1,525**	**$ 1,383**

Deferred Revenue and Advances from Others. Deferred Revenue and Advances from Others for the years ended September 30 consisted of the following (in millions):

	2021	2020
USCIS Application Fees	$ 3,112	$ 2,363
FEMA Unearned NFIP Fees	644	631
Advances from Others	181	169
Total Deferred Revenue and Advances from Others	**$ 3,937**	**$ 3,163**

USCIS' deferred revenue relates to fees received at the time of filing for applications or petitions for immigration and naturalization benefits that are recognized as revenue when the application or petition is adjudicated.

FEMA's deferred revenue relates to other NFIP unearned revenue including the federal policy fee, reserve fund assessment, and HFIAA surcharge. For further information, please see Note 20, Insurance Liabilities.

Other Liabilities. Other public liabilities consist primarily of immigration bonds, deposit and suspense fund liability.

19. Leases

A. Operating Leases

The Department leases various facilities and equipment accounted for as operating leases. Leased items consist of offices, warehouses, vehicles, and other equipment. The majority of office space occupied by the Department is either owned by the Federal Government or is leased by GSA from commercial sources. The estimated future lease payments for non-cancellable operating leases are based on lease contract terms, considering payments made during the year ended September 30, 2021.

As of September 30, 2021, estimated future minimum lease commitments for non-cancellable operating leases were as follows (in millions):

	Land and Buildings		
	Federal	**Non-Federal**	**Total**
FY 2022	$ 519	$ 24	$ 543
FY 2023	497	20	517
FY 2024	454	17	471
FY 2025	431	13	444
FY 2026	399	8	407
After FY 2026	2,682	18	2,700
Total Future Minimum Lease Payments	**$ 4,982**	**$ 100**	**$ 5,082**

The Department also enters into cancellable lease agreements with GSA for which lease terms frequently exceed one year. The Department is not committed to continue paying rent to GSA beyond the period occupied, providing that proper advance notice to GSA is made, unless the space occupied is designated as unique to Department operations. However, the Department normally continues to occupy the leased space from GSA for an extended period of time with little variation from year to year. Lease charges are adjusted annually to reflect operating costs incurred by GSA.

B. Capital Leases

The Department maintains capital leases for buildings, commercial software license agreements, vehicles, and equipment. The liabilities associated with capital leases and software license agreements are presented as other liabilities in the accompanying financial statements based upon the present value of the future minimum lease payments.

Certain license agreements are cancellable depending on future funding. Substantially all of the net present value of capital lease obligations and software license agreements will be funded from future sources. All of the Department's capital leases are non-federal.

As of September 30, the summary of assets under capital lease was as follows (in millions):

	2021	2020
Land and Buildings	$ 68	$ 68
Software	-	-
Vehicles and Equipment	1	1
Accumulated Amortization	(64)	(60)
Assets under Capital Lease, Net	**$ 5**	**$ 9**

The estimated future lease payments for capital leases are based on lease contract terms. As of September 30, 2021, estimated future minimum lease payments under capital leases, were as follows (in millions):

	Land and Buildings		
	Federal	**Non-Federal**	**Total**
FY 2022	$ -	$ 6	$ 6
FY 2023	-	3	3
FY 2024	-	-	-
FY 2025	-	-	-
FY 2026	-	-	-
After FY 2026	-	-	-
Total Future Minimum Lease Payments	-	9	9
Less: Imputed Interest and Executory Costs	-	(1)	(1)
Total Capital Lease Liability	**$ -**	**$ 8**	**$ 8**

20. *Insurance Liabilities*

The insurance liability for unpaid losses and related loss adjustment expenses and amounts paid for the years ended September 30 consisted of the following (in millions):

	2021	2020
Beginning Balance	$ 713	$ 1,360
Incurred Claim Losses	1,743	687
Incurred Claim Loss Adjustment Expenses	172	76
Less Payments to Settle Claims		
Claim Losses	(1,236)	(1,284)
Loss Adjustment Expenses	(138)	(127)
Recoveries and Other Adjustments		
Claim Losses	1	1
Ending Balance	**1,255**	**713**
Liability for Unearned Insurance Premiums	**2,181**	**2,117**
Total Insurance Liability	**$ 3,436**	**$ 2,830**

Insurance liabilities consist of NFIP claim activity. This claim activity represents an estimate of NFIP loss and loss adjustment expense factors inherent in the NFIP insurance underwriting operations experience and expectations. Estimation factors used by the insurance underwriting operations reflect current case basis estimates and give effect to estimates of trends in claim severity and frequency. These estimates are periodically reviewed, and adjustments, reflected in current operations, are made as necessary.

Incurred claim losses increased due to Hurricane Ida, Delta, Eta, and Zeta flooding events mainly in the Southeast region (Louisiana, Mississippi, and Alabama) in FY 2021.

Insurance liabilities are covered by a permanent and indefinite appropriation, which is available to pay all valid claims after adjudication. Accordingly, these insurance liabilities are covered by budgetary resources.

The total premiums collected as of September 30, 2021 is $3,519 million. The total amount of coverage provided through insurance in-force[7] as of September 30, 2021 is $1,341,305 million. However, it is unlikely that there would be flooding events across the United States requiring the entire insurance in force amount to be filed at one time.

The liability for losses on remaining coverage as of September 30, 2021 is $0. The Department evaluated the unearned premium reserve, net of operating expenses, to determine if it is sufficient to meet the typical future claims that these policies will incur before they expire. Since less than 20% of NFIP policies are subsidized (that is, less than full risk) premiums, the unearned premium reserve, by itself, has a projected deficiency. However, the NFIP has two other sources of funds that can also be used to pay future claims that more than offset that deficiency. Those additional funds are the unearned reserved fund assessment and the unearned HFIAA of 2014 surcharge. This positive outcome is because the deficiency in the unearned premium due to

[7] "In-force" refers to arrangements that are unexpired as of a given date.

discounted premium—which has been declining due to the increases in subsidized premiums mandated by Biggert-Waters Flood Insurance Modernization Act of 2012—is now more than offset by the unearned Reserve Fund Assessment and the unearned HFIAA surcharge. Actual flood losses are highly variable from year to year. For the majority of years, the unearned premium reserve is adequate to pay the losses and expenses associated with the unearned premium.

21. Commitments and Contingent Liabilities

A. Contingent Legal Liabilities

The Department is a party in various administrative proceedings, legal actions, and tort claims that may ultimately result in settlements or decisions adverse to the Federal Government. These contingent liabilities arise in the normal course of operations, and their ultimate disposition is unknown.

In the opinion of the Department's management and legal counsel, based on information currently available, the expected outcome of legal actions, individually or in the aggregate, are summarized in the categories below (in millions):

	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
As of September 30, 2021:			
Legal Contingencies			
Probable	$ 406	$ 406	$ 411
Reasonably Possible	-	1,373	2,513
Environmental Contingencies			
Probable	15	15	15
Reasonably Possible	-	28	354

	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
As of September 30, 2020:			
Legal Contingencies			
Probable	$ 445	$ 445	$ 459
Reasonably Possible	-	$ 538	$ 1,001
Environmental Contingencies			
Probable	38	38	38
Reasonably Possible	-	28	354

The claims above generally relate to the *Federal Tort Claims Act* (28 U.S.C. 2671, et seq.), OSLTF, personnel grievances, and various customs laws and regulations. The total estimated contingent liability recorded in the accompanying financial statements as of September 30, 2021, and 2020, was $421 million and $483 million, respectively, of which $2 million and $102 million, respectively, was funded.

As of September 30, 2021, and 2020, legal claims exist for which the potential range of loss could not be determined; however, the total amount claimed is not material to the financial statements. In addition, other claims exist for which the amount claimed, and the potential range of loss could not be determined.

Certain legal claims to which DHS is a party are funded from the Judgment Fund, which is maintained by Treasury. Once the Judgement Fund is determined to be the appropriate source for the payment, the liability would be removed from the DHS financial statements and an "other financing source" amount (which represents the amount to be paid by the Judgment Fund) would be recognized. If the Judgment Fund is responsible for only a portion of the claim or settlement, the other financing source amount would reflect only that amount to be paid by the Judgment Fund on behalf of DHS.

B. Duty and Trade Refunds

There are various trade-related matters that fall under the jurisdiction of other federal agencies, such as the Department of Commerce, which may result in refunds of duties, taxes, and fees from CBP refunds and drawbacks. Until a decision is reached by the other federal agencies, CBP does not have sufficient information to estimate a contingent liability amount. All known duty and trade refunds as of September 30, 2021 and 2020 have been recorded.

C. Loaned Aircraft and Equipment

The Department is generally liable to DoD for damage or loss to aircraft on loan to CBP and vessels on loan to the USCG. As of September 30, 2021, CBP had 16 aircraft on loan from DoD with a total replacement value of up to $23 million per aircraft. As of September 30, 2021, the USCG had four vessels on loan from DoD with a total replacement value of $48 million.

D. Other Contractual Arrangements

In addition to future lease commitments disclosed in Note 19, the Department is committed under contractual agreements for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all Department activities are disclosed in Note 26. In accordance with the National Defense Authorization Act for Fiscal Year 1991 (P.L. 101-510), the Department 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 cancelled may be paid from an unexpired appropriation that is available for the same general purpose. As of September 30, 2021, and 2020, the Department estimates total payments related to cancelled appropriations to be $245 million and $257 million, respectively, of which $221 million and $224 million, respectively, may require future funding.

TSA maintains one letter of intent (LOI) for modifications to airport facilities in which TSA uses cost-sharing agreements with the airports to modify the facilities for checked baggage screening projects. An LOI, though not a binding commitment of federal funding, represents TSA's intent to provide the agreed-upon funds in future years if the agency receives sufficient appropriations to cover the agreement. TSA employs other transaction agreements (OTAs) to fund the installation of integrated and non-integrated Explosive Detection Systems (EDS) and explosive trace detection equipment as well as improvements to be made to the existing systems in the baggage handling areas. These OTAs establish the respective cost-sharing obligations and other responsibilities of TSA and the specific entity (board, port, or authority) conducting the installations or improvements. Beginning in FY 2020 (P.L. 116-93), TSA's appropriation language no longer requires TSA to set aside specific authorized funding amounts for LOIs. TSA did not fund any new LOIs and did not increase any funding for the existing LOI in FY 2020 or FY 2021. As of September 30, 2021, and 2020, TSA received invoices or documentation for costs incurred totaling $48 million and $0, respectively, for unpaid invoices.

Under section 1604(b)(2) of the 9/11 Act, TSA is required to give funding consideration to airports that incurred eligible costs for in-line baggage screening systems but were not recipients of funding agreements. TSA began reviewing claims from at least 16 airports for reimbursement of costs incurred for in-line baggage systems installed prior to FY 2008 and identified up to $218 million of potential costs eligible for reimbursement. Beginning in FY 2018, Congress has included Enacted Appropriations for funding for Airport Reimbursement. In FY 2021 and 2020, Congress appropriated $30 million and $40 million, respectively, to begin reimbursing airports for these costs, leaving a future funded liability of $58 and $88 million, respectively, for reimbursing airports for eligible costs.

22. Funds from Dedicated Collections

SFFAS No. 27, *Identifying and Reporting Earmarked Funds*, as amended by SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27,* defines the following three criteria for determining a fund from dedicated collections: 1) a statute committing the Federal Government to use specifically identified revenue and/or other financing sources that are originally provided to the Federal Government by a non-federal source only for designated activities, benefits, or purposes; 2) explicit authority for the fund to retain revenue and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and 3) a requirement to account for and report on the receipt, use, and retention of the revenue and/or other financing sources that distinguished the fund from the Federal Government's general revenue.

A fund from dedicated collection may contain non-federal sources of revenue and other financing sources that are material to the reporting entity provided it meets the criteria reported above.

Intradepartmental activity reported in a fund from dedicated collection is often offset with activity in other funds. Accordingly, the Department presents information for funds from dedicated collections and all other funds in the Balance Sheets and Statements of Changes in Net Position on a combined basis. The elimination of intradepartmental activity between dedicated collections and all other funds is presented in the Statements of Changes of Net Position.

Funds from dedicated collections consisted of the following (in millions):

Funds from Dedicated Collections (in millions)

	Customs User Fees	Sport Fish Restoration and Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Combined Funds from Dedicated Collections
Balance Sheet as of September 30, 2021								
ASSETS								
Intragovernmental:								
Fund Balance with Treasury	$ 396	$ 45	$ 2,847	$ 7,836	$ 93	$ 1,146	$ 1,272	$ 13,635
Investments, Net	-	2,239	-	1,336	7,866	-	2	11,443
Accounts Receivable, Net	-	150	5	-	176	-	3	334
Other Assets	-	-	20	-	13	-	39	72
Total Intragovernmental Assets	396	2,434	2,872	9,172	8,148	1,146	1,316	25,484
With the Public:								
Cash and other monetary assets	-	-	51	(4)	-	-	4	51
Accounts Receivable, Net	378	-	-	2	834	-	58	1,272
General Property, Plant, and Equipment, Net	-	-	979	5	-	164	15	1,163
Other Assets	-	-	36	615	-	-	3	654
Total Assets	**$ 774**	**$ 2,434**	**$ 3,938**	**$ 9,790**	**$ 8,982**	**$ 1,310**	**$ 1,396**	**$ 28,624**
LIABILITIES								
Intragovernmental:								
Accounts Payable	$ 23	$ 1,552	$ 38	$ 4	$ 176	$ -	$ 26	$ 1,819
Debt	-	-	-	20,525	-	-	-	20,525
Other Liabilities	-	-	37	2	-	-	36	75
Total Intragovernmental Liabilities	$ 23	$ 1,552	$ 75	$ 20,531	$ 176	$ -	$ 62	$ 22,419
With the Public:								
Accounts Payable	-	-	96	76	-	139	31	342
Federal Employee and Veteran Benefits Payable	-	-	238	-	-	-	2	240
Insurance and Guarantee Program Liabilities	-	-	-	3,436	-	-	-	3,436
Other Liabilities	12	-	3,263	554	-	54	31	3,914
Total Liabilities	**$ 35**	**$ 1,552**	**$ 3,672**	**$ 24,597**	**$ 176**	**$ 193**	**$ 126**	**$ 30,351**

	Customs User Fees	Sport Fish Restoration and Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Combined Funds from Dedicated Collections
NET POSITION								
Cumulative Results of Operations	$ 739	$ 882	$ 266	$ (14,807)	$ 8,806	$ 1,117	$ 1,270	(1,727)
Total Liabilities and Net Position	**$ 774**	**$ 2,434**	**$ 3,938**	**$ 9,790**	**$ 8,982**	**$ 1,310**	**$ 1,396**	**$ 28,624**
Statement of Net Cost for the Year Ended September 30, 2021								
Gross Program Costs	$ 440	$ 102	$ 4,299	$ 4,079	$ 88	$ 192	$ 880	$ 10,080
Less: Earned Revenue	-	-	(4,024)	(4,633)	(60)	(250)	(749)	(9,716)
Net Cost of Operations	**$ 440**	**$ 102**	**$ 275**	**$ (554)**	**$ 28**	**$ (58)**	**$ 131**	**$ 364**
Statement of Changes in Net Position for the Year Ended September 30, 2021								
Net Position Beginning of Period	$ 859	$ 891	$ 293	$ (15,369)	$ 8,307	$ 972	$ 1,449	$ (2,598)
Net Cost of Operations	(440)	(102)	(275)	554	(28)	58	(131)	(364)
Non-exchange Revenue	311	702	-	3	635	-	227	1,878
Other	9	(609)	248	5	(108)	87	(275)	(643)
Change in Net Position	(120)	(9)	(27)	562	499	145	(179)	871
Net Position, End of Period	**$ 739**	**$ 882**	**$ 266**	**$ (14,807)**	**$ 8,806**	**$ 1,117**	**$ 1,270**	**$ (1,727)**

Funds from Dedicated Collections (in millions)

	Customs User Fees	Sport Fish Restoration and Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Combined Funds from Dedicated Collections
Balance Sheet as of September 30, 2020								
ASSETS								
Intragovernmental:								
Fund Balance with Treasury	$ 511	$ 44	$ 2,203	$ 6,401	$ 20	$ 1,131	$ 1,432	$ 11,742
Investments, Net	-	2,104	-	1,635	7,346	-	2	11,087
Accounts Receivable, Net	-	112	8	-	183	-	4	307
Other Assets	-	-	16	-	2	-	24	42
Total Intragovernmental Assets	511	2,260	2,227	8,036	7,551	1,131	1,462	23,178
With the Public:								
Cash and other monetary assets	-	-	36	19	-	-	6	61
Accounts Receivable, Net	360	-	-	3	940	-	177	1,480
General Property, Plant, and Equipment, Net	-	-	898	6	-	6	19	929
Other Assets	-	-	34	598	-	-	6	638
Total Assets	**$ 871**	**$ 2,260**	**$ 3,195**	**$ 8,662**	**$ 8,491**	**$ 1,137**	**$ 1,670**	**$ 26,286**
LIABILITIES								
Intragovernmental:								
Accounts Payable	$ 12	$ 1,369	$ 50	$ -	$ 184	$ -	$ 5	$ 1,620
Debt	-	-	-	20,525	-	-	-	20,525
Other Liabilities	-	-	33	1	-	-	181	215
Total Intragovernmental Liabilities	$ 12	$ 1,369	$ 83	$ 20,526	$ 184	$ -	$ 186	$ 22,360
With the Public:								
Accounts Payable	-	-	103	82	-	89	17	291
Federal Employee and Veteran Benefits Payable	-	-	228	-	-	-	2	230
Insurance and Guarantee Program Liabilities	-	-	-	2,830	-	-	-	2,830
Other Liabilities	-	-	2,488	593	-	76	16	3,173
Total Liabilities	**$ 12**	**$ 1,369**	**$ 2,902**	**$ 24,031**	**$ 184**	**$ 165**	**$ 221**	**$ 28,884**

	Customs User Fees	Sport Fish Restoration and Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Combined Funds from Dedicated Collections
NET POSITION								
Cumulative Results of Operations	$ 859	$ 891	$ 293	$ (15,369)	$ 8,307	$ 972	$ 1,449	(2,598)
Total Liabilities and Net Position	**$ 871**	**$ 2,260**	**$ 3,195**	**$ 8,662**	**$ 8,491**	**$ 1,137**	**$ 1,670**	**$ 26,286**

Statement of Net Cost for the Year Ended September 30, 2020

	Customs User Fees	Sport Fish Restoration and Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Combined Funds from Dedicated Collections
Gross Program Costs	$ 747	$ 112	$ 4,332	$ 3,025	$ 141	$ 162	$ 1,396	$ 9,915
Less: Earned Revenue	-	-	(3,730)	(4,536)	(159)	(250)	(676)	(9,351)
Net Cost of Operations	**$ 747**	**$ 112**	**$ 602**	**$ (1,511)**	**$ (18)**	**$ (88)**	**$ 720**	**$ 564**

Statement of Changes in Net Position for the Year Ended September 30, 2020

	Customs User Fees	Sport Fish Restoration and Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Combined Funds from Dedicated Collections
Net Position Beginning of Period	$ 1,015	$ 800	$ 682	$ (16,903)	$ 7,876	$ 996	$ 1,745	$ (3,789)
Net Cost of Operations	(747)	(112)	(602)	1,511	18	88	(720)	(564)
Non-exchange Revenue	665	744	-	19	520	-	272	2,220
Other	(74)	(541)	213	4	(107)	(112)	152	(465)
Change in Net Position	(156)	91	(389)	1,534	431	(24)	(296)	1,191
Net Position, End of Period	**$ 859**	**$ 891**	**$ 293**	**$ (15,369)**	**$ 8,307**	**$ 972**	**$ 1,449**	**$ (2,598)**

Customs User Fees

Enacted in 1986, the *Consolidated Omnibus Budget Reconciliation Act (COBRA)* (P.L. 99-272) required 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 was added later that year for processing barges and bulk carriers for Canada and Mexico. These fees are deposited into Customs User Fees accounts (Treasury Appropriation Fund Symbol (TAFS) 705695.30 and 70X5695).

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

The *Customs and Trade Act of 1990* amended COBRA to provide for the hiring of inspection personnel, the purchasing of equipment, and the covering of related expenses with any surplus monies available after overtime and excess preclearance costs are satisfied. Expenditures from the surplus can only be used to enhance the service provided to those functions for which fees are collected. The fees for certain customs services are provided by 19 U.S.C. 58c.

The *Miscellaneous Trade and Technical Corrections Act of 1999* (P.L. 106-36) also amended COBRA and made miscellaneous and technical changes to various trade laws.

Section 892 of the *American Jobs Creation Act of 2004* (P.L. 108–357) amended 19 U.S.C. 58c to renew the fees provided under COBRA, which would have otherwise expired March 1, 2005, and to allow the Secretary of the Treasury to increase such fees by an amount not to exceed ten percent in the period beginning fiscal year 2006. The ten percent increase took effect in FY 2007. See 72 Fed. Reg. 3730 (Jan. 26, 2007).

Section 601 of the *United States-Colombia Trade Promotion Agreement Implementation Act of 2011* (P.L. 112-42) lifted the exemption that excluded air and sea passengers from Canada, Mexico, the Caribbean, and adjacent islands, from having to pay the COBRA air, sea, and cruise vessel passenger fees. These free trade agreements are referred to as COBRA FTA. While most COBRA fees are mandatory (with permanent authorization to use the fees), COBRA FTA revenues are discretionary and must be authorized through annual appropriations acts. This distinction can impact how and when the fees are available to CBP.

The *Trade Preference Extension Act of 2015* (P.L. 114-27) was signed into law to extend the charging of COBRA user fees through 2025. The *Fixing America's Surface Transportation Act* (FAST Act, P.L. 114-94) was also signed into law in the same year. Section 32201 of the FAST Act amends section 13031 of COBRA by requiring certain COBRA user fees and corresponding limitations to be adjusted by the Secretary of the Treasury to reflect certain increases in inflation. Increases first took effect in FY 2018 and continued in subsequent years.

Sport Fish Restoration and Boating Trust Fund

Section 1016 of the *Deficit Reduction Act of 1984* (P.L. 98-369) established the Aquatic Resources Trust Fund, which was composed of two accounts, the Boating Safety Account and the Sport Fish Restoration Account.

In 2005, the *Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users* (P.L. 109-59) amended the *Deficit Reduction Act of 1984* by combining the Boating Safety and the Sport Fish Restoration accounts as the SFRBTF. The *Safe, Accountable, Flexible, Efficient*

Transportation Equity Act was later amended by the *Sportfishing and Recreational Boating Safety Amendments Act of 2005* (P.L. 109-74).

The SFRBTF is a Treasury-managed fund and provides funding to states and other entities to promote boating safety and conservation of U.S. recreational waters. The most recent reauthorization was in 2021 via H.R. 5434, the *Surface Transportation Extension Act of 2021*.

This fund receives revenue transferred from custodial activities of the Treasury, which is deposited in a Treasury account. The revenue is derived from a number of sources, including motorboat fuel tax, excise taxes on sport fishing equipment, and import duties on fishing tackle and yachts. Three agencies share in the available portion of the revenue: Fish and Wildlife Service in the Department of Interior (TAFS 14X8151); the U.S. Army Corps of Engineers (TAFS 96X8333); and the USCG (TAFS 70X8149 and TAFS 70X8147).

Immigration Examination Fees

In 1988, Congress established the Immigration Examination Fee Account (IEFA), and the fees deposited into the IEFA have been the primary source of funding for providing immigration and naturalization benefits and other benefits as directed by Congress. The *Immigration and Nationality Act* (INA) (P.L. 82-414, Section 286(m)) provides for the collection of fees at a level that will ensure recovery of the costs of providing adjudication and naturalization services, including the costs of providing similar services without charge to asylum applicants and other immigrants. The INA also states that the fees may recover administrative costs.

The primary sources of revenue are the application and petition fees that are collected during the course of the fiscal year and deposited into the IEFA (TAFS 70X5088). In addition, USCIS provides specific services to other federal, state, and local agencies, such as the provision of immigration status information under the Systematic Alien Verification for Entitlements program for use in adjudicating aliens' eligibility for public benefits. These services result in the collection of revenue from intragovernmental activities.

National Flood Insurance Program

The NFIP was established by the *National Flood Insurance Act of 1968* (P.L. 90-448). The purpose of NFIP is to better indemnify individuals for flood losses through insurance, reduce future flood damages through state and community floodplain management regulations, and reduce federal expenditures for disaster assistance and flood control.

The *Flood Disaster Protection Act of 1973* (P.L. 93-234) expanded the authority of FEMA and its use of the NFIP to grant premium subsidies as an additional incentive to encourage widespread state, community, and property owner acceptance of the program requirements.

The *National Flood Insurance Reform Act of 1994* (P.L. 103-325) reinforced the objective of using insurance as the preferred mechanism for disaster assistance by expanding mandatory flood insurance purchase requirements and by prohibiting further flood disaster assistance to participants who received flood disaster assistance that was conditional on first having obtained flood insurance and subsequently failed to obtain and maintain flood insurance.

The *Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004* (P.L. 108-264) provides additional tools for addressing the impact of repetitive loss properties on the National Flood Insurance Fund.

The *Biggert-Waters Flood Insurance Reform Act of 2012* (P.L. 112-141) and the *Homeowner Flood Insurance Affordability Act of 2014* (P.L. 113-89) amended the *National Flood Insurance Act of 1968* to extend the NFIP and establish a National Flood Insurance Reserve Fund to meet the expected future obligations of the NFIP. The acts authorized FEMA to secure reinsurance coverage from private reinsurance and capital markets to maintain the financial ability of the program to pay claims from major flooding events.

Although legislation continues to extend the NFIP as is through December 3, 2021 per P.L. 117-43 enacted on September 30, 2021, it has been almost 10 years since the last reauthorization made programmatic changes.

Under the NFIP, the Department pays claims to policyholders who experience flood damage. The write your own (WYO) companies that participate in the program have authority to use departmental funds (revenue and other financing sources) to respond to the obligations to the policyholders. Congress has mandated that the premium collections be used to pay claims and commissions and taxes of agents, insurance operations, interest on the debt, and for flood mitigation assistance actions.

The NFIP requires all partners (WYO companies) in the program to submit financial statements and statistical data to the third-party service providers on a monthly basis. This information is reconciled, and the WYO companies are required to correct any variances.

The NFIP's primary source of revenue comes from premiums collected to insure policyholders' property. These resources are inflows to the Government, not intragovernmental resources. When claims exceed revenue, FEMA has borrowing authority that can be accessed to satisfy outstanding claims. The following TAFS are part of the NFIP: 70X4236 and 70X5701.

<u>Oil Spill Liability Trust Fund</u>

The OSLTF was originally established under section 9509 of the *Internal Revenue Code of 1986. The Oil Pollution Act of 1990* (OPA) (P.L. 101-380*)* authorized the use of the money and the collection of revenue necessary for maintenance of the fund.

OPA defined fund uses include removal costs incurred by the USCG, the Environmental Protection Agency, and the states; payments to federal, state, and Indian tribe trustees to conduct natural resource damage assessments and restorations; payment of claims for uncompensated removal costs and damages; costs and expenses reasonably necessary for the OPA implementation (subject to congressional appropriations); and other specific appropriations by Congress.

The OSLTF includes two major funds managed by the USCG: the Principal Fund (TAFS 70X8185) and the Payment of Claims (TAFS 70X8312). All revenue is deposited directly into the Principal Fund. The recurring and nonrecurring revenue is derived from a number of sources, including barrel tax, interest from U.S. Treasury investments, cost recoveries, and fines and penalties. Two of the six expenditure accounts are managed by the USCG. These include Oil Spill Recovery (TAFS 70X8349) and Trust Fund Share of Expenses (TAFS 70_8314). Oil Spill Recovery funds the activities overseen by federal on-scene coordinators in response to covered discharges and the activities of federal trustees to initiate natural resource damage assessments. This account annually receives a $50 million appropriation that remains available until expended. Trust Fund Share of Expenses receives annual appropriations from the OSLTF that are then distributed to the USCG Operations and Support; Procurement, Construction and Improvement; and Research and Development appropriations. By statute, the maximum amount that can be expended from the OSLTF with respect to any single incident shall not exceed $1,000 million, of which no more than $500 million may be spent on natural resource damage assessments. The maximum amount expended with respect to a single incident is net of amounts expended and amounts recovered.

On April 20, 2010, the offshore drilling platform, Deepwater Horizon, exploded and sank 52 miles southeast of Venice, Louisiana. An estimated 4.9 million barrels of oil leaked from the sunken platform's undersea ruptured pipe. The states of Louisiana, Mississippi, Alabama, Florida, and Texas were affected by the spill. On April 4, 2016, the U.S. District Court entered a consent decree which requires BP to pay a penalty to the U.S. Government over 15 years beginning on April 4, 2017. Of the total amount owed to the U.S. Government, the OSLTF will receive a total of $935 million plus interest. The final installment payment will be the accrued interest of $60 million. In addition, BP was assessed $374 million for unpaid costs and damages paid from the OSLTF through July 2, 2015, to be paid in annual installments over eight years beginning in 2016. No interest will be accrued on this amount.

Contingent Liabilities. The OSLTF, which is administered by the USCG National Pollution Funds Center (NPFC), may be available to pay claims for OPA specified costs and damages, not paid by BP, or another responsible party. Under OPA, claimants are required to present their claims first to the responsible parties (or the Gulf Coast Claims Facility for Deepwater Horizon costs); if the responsible party is not identified or denies the claims, the claimant may then file an action in court or file a claim against the OSLTF through the NPFC. For additional information, see Note 21, Commitments and Contingencies.

Aviation Security Capital Fund

In 2003, *Vision 100--Century of Aviation Reauthorization Act* (P.L. 108-176) established the Aviation Security Capital Fund (TAFS 70X5385 and 70C5385). The fund's revenue is derived from security service fees in accordance with 49 U.S.C. 44940(a)(1). Annually, the first $250 million derived from Aviation Security fees are deposited into this fund. TSA provides funding to airport sponsors for projects to (1) replace baggage conveyor systems related to aviation security, (2) reconfigure terminal baggage areas as needed to install EDS, (3) deploy EDS behind the ticket counter, in the baggage sorting area, or in line with the baggage handling system, and (4) make other airport security capital improvements.

All Other Funds from Dedicated Collections

The balances and activity reported for all other funds from dedicated collections result from the funds listed below. Information related to these funds can be located in the Department's appropriations legislation or the statutes referenced.

- 70_0715: Radiological Emergency Preparedness Program, Federal Emergency Management Agency, Department of Homeland Security; 117 Stat. 516
- 70X0715: Radiological Emergency Preparedness Program, Federal Emergency Management Agency, Department of Homeland Security; 117 Stat. 516
- 70X5089: U.S. Customs and Border Protection, Land Border Inspection Fees, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70_5087: U.S. Customs and Border Protection, Immigration User Fees, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5087: U.S. Customs and Border Protection, Immigration User Fees, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5126: Breach Bond/Detention Fund, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135

- 70X5378: Student and Exchange Visitor Program, Border and Transportation Security, Department of Homeland Security; 110 Stat. 3009-706, Sec. (e)(4)(B)
- 70X5382: Immigration User Fee Account, BICE, Department of Homeland Security; 116 Stat. 2135
- 70_5389: H-1B and L Fraud Prevention and Detection Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 118 Stat. 3357, Sec. 426(b)(1)
- 70X5389: H-1B and L Fraud Prevention and Detection Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 118 Stat. 3357, Sec. 426(b)(1)
- 70X5390: Unclaimed Checkpoint Money, Transportation Security Administration, Department of Homeland Security; 118 Stat. 1317-1318, Sec.515(a)
- 70X5451: Immigration Enforcement Account, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5542: Detention and Removal Operations, U.S. Immigration and Customs Enforcement, Department of Homeland Security; 8 U.S.C. 1356(m)-(n); P.L. 107-296, Sec. 476c
- 70X5545: Airport Checkpoint Screening Fund, Transportation Security Administration, Department of Homeland Security; P.L. 110-161
- 70X5595: Electronic System for Travel Authorization (ESTA) Fees, U.S. Customs and Border Protection, Department of Homeland Security; P.L. 110-53, 121 Stat. 344; P.L. 111-145, 124 Stat. 56
- 70_5694: User Fees, Small Airports, U.S. Customs Service, Department of Homeland Security; 116 Stat. 2135
- 70X5694: User Fees, Small Airports, U.S. Customs Service, Department of Homeland Security; 116 Stat. 2135
- 70X8244: Gifts and Donations, Department Management, Department of Homeland Security; 116 Stat. 2135
- 70X8533: General Gift Fund, U.S. Coast Guard, Department of Homeland Security; 116 Stat. 2135
- 70X8870: Harbor Maintenance Fee Collection, U.S. Customs Service, Department of Homeland Security; 116 Stat. 2135
- 70_5106: H-1 B Nonimmigrant Petitioner Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 116 Stat. 2135
- 70X5106: H-1 B Nonimmigrant Petitioner Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 116 Stat. 2135
- 70X8360: Gifts and Bequests, Federal Law Enforcement Training Centers, Department of Homeland Security; 116 Stat. 2135
- 70X5543: International Registered Traveler Program Fund, U.S. Customs and Border Protection, Department of Homeland Security; 121 Stat. 2091-2092
- 70_5710: Coast Guard Housing Fund, U.S. Coast Guard, Department of Homeland Security, 14 U.S.C. 687(c)

- 70X5710: Coast Guard Housing Fund, U.S. Coast Guard, Department of Homeland Security, 14 U.S.C. 687(c)
- 70X5569: Asia-Pacific Economic Cooperation Business Travel Cards, U.S. Customs and Border Protection, Department of Homeland Security, 125 Stat. 551
- 70X4363: Enhanced Inspectional Services, U.S. Customs and Border Protection, Department of Homeland Security, 127 Stat. 378
- 70X5702: 9-11 Response and Biometric Exit Account, U.S. Customs and Border Protection, Department of Homeland Security, P.L. 114-113, Sec. 402(g)
- 70_5677: Abandoned Seafarers Fund, U.S. Coast Guard, Department of Homeland Security, 128 Stat. 3051
- 70X5677: Abandoned Seafarers Fund, U.S. Coast Guard, Department of Homeland Security, 128 Stat. 3051
- 70X1910: Citizenship Gift and Bequest Account, U.S. Citizenship and Immigration Services, Department of Homeland Security, 131 Stat. 422
- 70X6211: Public Charge Bonds, U.S. Citizenship and Immigration Services, Department of Homeland Security, P.L. 116-930

23. Available Borrowing Authority

For the Years Ended September 30 (in millions):	2021	2020
Beginning Borrowing Authority	$ 20	$ 6
Current Year Borrowing Authority Realized	10,012	9,970
Decrease in Current Year Borrowing Authority Realized	(9,980)	(9,937)
Net Current Year Borrowing Authority Realized	32	33
Less: Borrowing Authority Converted to Cash	(37)	(19)
Ending Borrowing Authority	**$ 15**	**$ 20**

FEMA has borrowing authority to pay insurance claims as part of the NFIP and to finance CDLs under DADLP. Borrowing authority is budget authority enacted by law to permit an agency to borrow money and then obligate and disburse against amounts borrowed for a specified purpose. As of September 30, 2021, and 2020, net current year borrowing authority realized presented in the Statement of Budgetary Resources (SBR) totaled $32 million and $33 million, respectively.

FEMA is authorized to borrow from Treasury up to $30,425 million to fund the payment of flood insurance claims and claims-related expenses of the NFIP. Amounts borrowed at any time are not predetermined, and authority is used only as needed to pay existing obligations for claims and expenses. Insurance premiums collected are used to pay insurance claims and to repay borrowings. As of September 30, 2021, and 2020, FEMA had drawn from Treasury $20,525 million, leaving $9,900 million available to be borrowed.

FEMA also requests borrowing authority annually to cover the unsubsidized portion of loans made, finance downward re-estimates, modifications, modification adjustment transfers, and annual interest payment to Treasury at year-end. In FY 2021 and FY 2020, FEMA requested borrowing totaling $112 million and $70 million, respectively. As of September 30, 2021 and 2020, the ending available borrowing authority of $15 million and $20 million, respectively, was to cover current obligations for CDLs still disbursing.

24. Legal Arrangements Affecting the Use of Unobligated Balances

Unobligated balances whose period of availability has expired are not available to fund new obligations. Expired unobligated balances are available to pay for current period adjustments to obligations incurred prior to expiration. For a fixed appropriation account, the balance can be carried forward for five fiscal years after the period of availability ends. At the end of the fifth fiscal year, the account is closed, and any remaining balance is canceled and returned to Treasury. For a no-year account, the unobligated balance is carried forward indefinitely until specifically rescinded by law or 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 and Fund Balance with Treasury are special funds of $1,102 million and $1,372 million at September 30, 2021, and 2020, respectively, that represents the Department's authority to assess and collect user fees relating to merchandise and passenger processing; to assess and collect fees associated with services performed at certain small airports or other facilities; to 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 in their use to offset specific costs incurred by the Department. Part of the passenger fees in the COBRA User Fees Account are restricted by law in their use to offset specific costs incurred by the Department.

The CARES Act provided a supplemental appropriation for FEMA's Disaster Relief Fund to remain available until expended. A Presidential Memorandum issued on August 8, 2020, established a Lost Wages Assistance Program in partnership with DOL, to empower states to deliver continued financial relief to Americans who were suffering from unemployment due to the COVID-19 pandemic. Funding for the program was provided by FEMA's Disaster Relief Fund, and ended on December 6, 2020.

The entity trust fund balances result from the Department's authority to use the proceeds from general order items sold at auction to offset specific costs incurred by the Department 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.

25. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

The table below documents the material differences between the FY 2020 Statement of Budgetary Resources and the actual amounts reported for FY 2020 in the Budget of the U.S. Government. Since the FY 2021 financial statements will be reported prior to the release of the Budget of the U.S Government, DHS is reporting for FY 2020 only. Typically, the Budget of the

U.S Government with the FY 2021 actual data is published in February of the subsequent year. Once published, the FY 2021 actual data will be available on the OMB website.

	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
FY 2020 Actual Balances per the FY 2022 Budget of the U.S. Government (in millions)	**$ 186,571**	**$ 153,157**	**$ 11,291**	**$ 103,256**
Reconciling Items:				
Accounts that are expired that are not included in Budget of the U.S. Government	1,759	-	-	-
Distributed Offsetting Receipts not included in the Budget of the U.S. Government Net Outlays	-	-	-	(11,291)
Refunds and drawbacks not included in the Budget of the U.S. Government	7,302	7,302	-	7,085
Byrd Program (Continued Dumping and Subsidy Offset) not included in the Budget of the U.S. Government	173	16	-	16
Miscellaneous Differences	833	57	-	(2)
Per the 2020 Statement of Budgetary Resources	**$ 196,638**	**$ 160,532**	**$ 11,291**	**$ 99,064**

The Miscellaneous Differences amount includes adjustments to obligations reported on the Statement of Budgetary Resources but not included in the Budget of the U.S. Government. The SBR Net Outlays also includes the SBR line Disbursement, net amounts.

26. Undelivered Orders, End of Period

An unpaid undelivered order exists when a valid obligation has occurred, and funds have been reserved but the goods or services have not been received by the Department. A paid undelivered order exists when a valid obligation has occurred, and funds have been advanced, but the goods or services have not been received by the Department.

Undelivered Orders consisted of the following (in millions):

As of September 30, 2021:	**Federal**	**Non-Federal**	**Total**
Undelivered Orders – Unpaid	$ 10,938	$ 80,987	$ 91,925
Undelivered Orders – Paid	$ 849	$ 924	$ 1,773

As of September 30, 2020:	**Federal**	**Non-Federal**	**Total**
Undelivered Orders – Unpaid	$ 12,499	$ 60,640	$ 73,139
Undelivered Orders – Paid	$ 965	$ 964	$ 1,929

27. Net Adjustments to Unobligated Balance, Brought Forward, October 1

For the Years Ended September 30 (in millions):	2021	2020
Unobligated Balance, Prior Year	$ 36,106	$ 48,534
Other Balances Withdrawn from Treasury	(575)	(628)
Recoveries of Prior Year Obligations	11,428	3,955
Other	(4)	(13)
Unobligated Balance from Prior Year Budget Authority, Net	**$ 46,955**	**$ 51,848**

The FEMA Disaster Relief program was the primary contributor to Recoveries of prior year obligations. DHS COVID-19 related recoveries and refunds totaled $5,404 million for FY 2021. Of the $5,404 million, $5,367 million is attributed to FEMA and $37 million is attributed to all other Components. For further information, please see Note 31, COVID-19 Activity.

28. Custodial Revenue

The Department collects revenue from a variety of duties, excise taxes, fines and penalties, and various other fees. Revenue collections primarily result from current fiscal year activity. Current Taxes, Duties, Trade Receivables, Net are collected within 90 days of the assessment. Therefore, the Department considers Tax Year to be same as the fiscal year when assessments are made. CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. CBP's mission requires the collection of non-exchange and exchange revenue for interest and Agricultural Quarantine Inspection fees collected on behalf of the U.S. Department of Agriculture. The majority of CBP's revenue is considered non-entity revenue and is reported on the Department's Statement of Custodial Activity and includes duties, excise taxes, and various other fees collected by CBP.

For additional information, see Note 1.X., Exchange and Non-Exchange Revenue.

The significant types of non-entity accounts receivable and custodial revenue as presented in the Statement of Custodial Activity are described below.

1. **Duties:** amounts collected on imported goods collected on behalf of the Federal Government.
2. **User fees:** amounts designed to maintain U.S. harbors and to defray the cost of other miscellaneous service programs.
3. **Excise taxes:** amounts collected on imported distilled spirits, wines, tobacco products, and other miscellaneous taxes collected on the behalf of the Federal Government.
4. **Fines and penalties:** amounts collected for violations of laws and regulations.

Custodial revenue collected from the public, broken out by revenue type and by tax year, were as follows for the fiscal year ended September 30, 2021 (in millions):

Custodial Revenue

	2021	2020 and Prior Years	2021 Collections
Excise Tax	$ 4,423	$ 350	$ 4,773
Customs Duties	79,175	6,291	85,466
User Fees, Fines and Penalties, Interest, and Other Revenue	1,751	154	1,905
Total Amount of Federal Revenues Collected	**$ 85,349**	**$ 6,795**	**$ 92,144**

Custodial revenue collected from the public, broken out by revenue type and by tax year, were as follows for the fiscal year ended September 30, 2020 (in millions):

Custodial Revenue

	2020	2019 and Prior Years	2020 Collections
Excise Tax	$ 3,722	$ 245	$ 3,967
Customs Duties	67,158	7,243	74,401
User Fees, Fines and Penalties, Interest, and Other Revenue	1,564	142	1,706
Total Amount of Federal Revenues Collected	**$ 72,444**	**$ 7,630**	**$ 80,074**

Refunds are amounts due to the importer/exporter as a result of overpayments of duties, taxes, fees, and interest. Refunds include drawback remittance paid when imported merchandise, for which duty was previously paid, is exported from the United States.

Tax disbursements from the refunds and drawbacks account, broken out by revenue type and by tax year, were as follows for the fiscal year ended September 30, 2021 (in millions):

Refunds/Payments

	Tax Year				
	2021	2020	2019	Prior Years	2021 Refunds
Excise Tax	$ 122	$ 107	$ 65	$ 33	$ 327
Customs Duties	2,554	2,236	1,354	693	6,837
Fines, Penalties, Interest, and Other Revenue	76	67	41	21	205
Total Tax Refunds and Drawbacks Disbursed	**$ 2,752**	**$ 2,410**	**$ 1,460**	**$ 747**	**$ 7,369**

Tax disbursements from the refunds and drawbacks account, broken out by revenue type and by tax year, were as follows for the fiscal year ended September 30, 2020 (in millions):

Refunds/Payments	Tax Year				
	2020	2019	2018	Prior Years	2020 Refunds
Excise Tax	$ 193	$ 240	$ 45	$ 24	$ 502
Customs Duties	2,741	3,400	639	341	7,121
Fines, Penalties, Interest, and Other Revenue	(6)	(6)	(1)	(1)	(14)
Total Tax Refunds and Drawbacks Disbursed	**$ 2,928**	**$ 3,634**	**$ 683**	**$ 364**	**$ 7,609**

The disbursements include interest payments of $219 million and $226 million for the fiscal years ended September 30, 2021 and 2020, respectively.

The disbursement totals for refunds include antidumping and countervailing duties collected that are refunded pursuant to rulings by the Department of Commerce. These duties are refunded when the Department of Commerce issues a decision in favor of the foreign industry. See Note 18, Other Liabilities, for more information.

29. Reconciliation of the Net Cost to Net Outlays

The reconciliation of net outlays presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information.

The first section calculates the Net Cost of Operations. Items include gross cost, earned revenue, net cost of operations before (gain)/loss on pension, ORB, or OPEB assumption changes, and (gain)/loss on pension, ORB, or OPEB changes. All section totals are added to the Net Cost of Operations.

The second section, Components of Net Operating Cost Not Part of the Budgetary Outlays, includes items such as property, plant and equipment depreciation expense, disposal, and revaluation. The cost of goods sold, applied overhead, cost capitalization offset, (gains)/losses on all other investments are also part of the calculation. The next subsection, Increase/(Decrease) in Assets Not Affecting Budget Outlays, consists of items such as accounts receivable, net and other assets. The subsection titled (Increase)/Decrease in Liabilities Not Affecting Budget Outlays, consists of accounts payable, insurance and guarantee program liability (Non-FCRA)/loans payable, environmental and disposal liabilities, federal employee and veteran benefit payable, other liabilities, and imputed costs.

The third section, Components of the Budget Outlays That Are Not Part of Net Operating Cost, consists of the acquisition of capital assets, inventory, and other investment activity. Financing sources from donated revenue and transfers out/(in) without reimbursements are part of the calculated total.

The fourth section, Miscellaneous Items, consists of distributed offsetting receipts, custodial/non-exchange revenue, and other temporary timing differences.

As of September 30, 2021 (in millions):

	Intragovernmental	With the Public	Total
Net Cost of Operations	**$ 19,081**	**$ 72,462**	**$ 91,543**
Components of Net Operating Cost Not Part of the Budgetary Outlays:			
Property, Plant, and Equipment Depreciation Expense	-	(2,087)	(2,087)
Property, Plant, and Equipment Donations, Applied Overhead, Cost Capitalization Offset, Disposals, and Revaluations	256	(282)	(26)
Cost of Goods Sold	-	(336)	(336)
(Gains)/Losses on All Other Investments	-	(16)	(16)
Increase/(Decrease) in Assets Not Affecting Budgetary Outlays:			
Accounts Receivable, Net	(773)	(51)	(824)
Other Assets	(117)	(153)	(270)
(Increase)/Decrease in Liabilities Not Affecting Budget Outlays:			
Accounts Payable	(634)	508	(126)
Insurance and Guarantee Program Liability (Non-FCRA)/Loans Payable	-	(606)	(606)
Environmental and Disposal Liabilities	-	(6)	(6)
Federal Employee and Veteran Benefits Payable	-	(3,735)	(3,735)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	88	8,782	8,870
Other Financing Sources:			
Imputed Costs	$ (1,877)	$ -	$ (1,877)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**$ (3,057)**	**$ 2,018**	**$ (1,039)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost:			
Acquisition of Capital Assets	$ (263)	$ 3,708	$ 3,445
Acquisition of Inventory	80	425	505
Other Investment Activity	(1)	-	(1)
Financing Sources			
Donated Revenue	$ -	$ (3)	$ (3)
Transfers Out/(In) Without Reimbursements	182	(51)	131
Total Components of the Budget Outlays That Are Not Part of the Net Operating Costs	**$ (2)**	**$ 4,079**	**$ 4,077**
Miscellaneous Items			
Distributed Offsetting Receipts	$ (114)	$ -	$ (114)
Custodial/Non-Exchange Revenue	6,989	(3,630)	3,359
Other Temporary Timing Differences	(8)	274	266
Total Miscellaneous Items	**$ 6,867**	**$ (3,356)**	**$ 3,511**
Total Net Outlays	**$ 22,889**	**$ 75,203**	**$ 98,092**

As of September 30, 2020 (in millions):

	Intragovernmental	With the Public	Total
Net Cost of Operations	**$ 16,018**	**$ 99,384**	**$ 115,402**
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant, and Equipment Depreciation	-	(2,111)	(2,111)
Property, Plant, and Equipment Disposal and Revaluation	-	(86)	(86)
Year-end credit reform subsidy re-estimates	6	12	18
Other	(19)	736	717
Increase/(Decrease) in Assets:			
Accounts Receivable	1,113	(372)	741
Investments	51	-	51
Other Assets	331	(88)	243
(Increase)/Decrease in Liabilities:			
Accounts Payable	(81)	(738)	(819)
Salaries and Benefits	(156)	(174)	(330)
Environmental and Disposal Liabilities	-	2	2
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	(107)	(19,715)	(19,822)
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	$ (1,648)	$ -	$ (1,648)
Transfers Out (In) Without Reimbursement	122	-	122
Total Components of Net Cost That Are Not Part of Net Outlays	**$ (388)**	**$ (22,534)**	**$ (22,922)**
Components of Net Outlays That Are Not Part of Net Operating Cost:			
Acquisition of Capital Assets	$ (1)	$ 3,038	$ 3,037
Acquisition of Inventory	70	416	486
Non-Exchange Revenues	6,786	(3,968)	2,818
Other	6	234	240
Total Components of Net Outlays That Are Not Part of Net Operating Cost	**$ 6,861**	**$ (280)**	**$ 6,581**
Other Temporary Timing Differences	**2**	**1**	**3**
Net Outlays	**$ 22,493**	**$ 76,571**	**$ 99,064**

30. Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for Financial Reporting Compilation Process

To prepare the *Financial Report of the U.S. Government (Financial Report)*, the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the *Financial Report* statements. This note shows the Department's financial statements and the Department's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated *Financial Report* line items. A copy of the 2020 *Financial Report* can be found at the Reports, Statements, and Publications page within the Bureau of Fiscal Service website and a copy of the 2021 *Financial Report* will be posted to this site as soon as it is released.

The term "intragovernmental" is used in this note to refer to amounts that result from other components of the Federal Government.

The term "non-Federal" is used in this note to refer to Federal Government amounts that result from transactions with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments.

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet for the Year Ending September 30, 2021 (in millions)

FY 2021 DHS Balance Sheet		Line Items Used to Prepare FY 2021 Government-wide Balance Sheet					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated and All Other**	**Total**	**Reclassified Financial Statement Line**
ASSETS							**ASSETS**
Intragovernmental Assets							**Intragovernmental Assets**
Fund Balance with Treasury	$ 163,044	$ 13,635	$ -	$ 149,409	$ -	$ 163,044	FBWT
Investments, Net	11,443	11,421	-	-	-	11,421	Federal Investments
		22	-	-	-	22	Interest Receivable – Investments
Total Investments, Net	*11,443*	*11,443*	-	-	-	*11,443*	*Total Reclassified Investments, Net*
Accounts Receivable, Net	727	5	-	281	40	246	Accounts Receivable, Net
		326	176	331	-	481	Transfers Receivable
		3	3	-	-	-	Asset for Agency Custodial and Non-Entity Liabilities – Other than the General Fund
Total Accounts Receivable, Net	*727*	*334*	*179*	*612*	*40*	*727*	*Total Reclassified A/R, Net*
Other Assets	739	72	-	667	-	739	Advances to Others and Prepayments
Total Intragovernmental Assets	**$ 175,953**	**$ 25,484**	**$ 179**	**$ 150,688**	**$ 40**	**$ 175,953**	**Total Intragovernmental Assets**
Cash and Other Monetary Assets	64	51	-	13	-	64	Cash and Other Monetary Assets
Accounts Receivable, Net	1,672	1,272	-	400	-	1,672	Accounts Receivable, Net
Taxes Receivable, Net	8,093	-	-	8,093	-	8,093	Taxes Receivable, Net
Loans Receivable, Net	8	-	-	8	-	8	Loans Receivable, Net
Inventory and Related Property, Net	2,531	-	-	2,531	-	2,531	Inventory and Related Property, Net
General PP&E, Net	27,893	1,163	-	26,730	-	27,893	General PP&E, Net
Other Assets	924	654	-	270	-	924	Other Assets
Total Assets	**$ 217,138**	**$ 28,624**	**$ 179**	**$ 188,733**	**$ 40**	**$ 217,138**	**Total Assets**

FY 2021 DHS Balance Sheet		Line Items Used to Prepare FY 2021 Government-wide Balance Sheet					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and All Other	Total	Reclassified Financial Statement Line
LIABILITIES							**LIABILITIES**
Intragovernmental Liabilities							**Intragovernmental Liabilities**
Accounts Payable	$ 2,982	$ 91	$ -	$ 1,389	$ 50	$ 1,430	Accounts Payable
		1,728	176	-	-	1,552	Transfers Payable
Total Accounts Payable	*2,982*	*1,819*	*176*	*1,389*	*50*	*2,982*	*Total Reclassified Accounts Payable*
Debt	20,618	20,525	-	93	-	20,618	Loans Payable
Other Liabilities	9,171	-	-	8,052	-	8,052	Liability to the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets
		35	-	770	-	805	Benefit Program Contributions Payable
		-	-	123	-	123	Advances from Other & Deferred Revenue
		34	3	114	-	145	Liability to Agency Other Than the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets
		6	-	40	-	46	Other Liabilities (w/o Reciprocals)
Total Other Liabilities	*9,171*	*75*	*3*	*9,099*	-	*9,171*	*Total Reclassified Other Liabilities*
Total Intragovernmental Liabilities	**$ 32,771**	**$ 22,419**	**$ 179**	**$ 10,581**	**$ 50**	**$ 32,771**	**Total Intragovernmental Liabilities**
Accounts Payable	2,624	342	-	2,282	-	2,624	Accounts Payable
Federal Employee and Veteran Benefits Payable	75,570	240	-	75,330	-	75,570	Federal Employee and Veteran Benefits Payable
Environmental and Disposal Liabilities	628	-	-	628	-	628	Environmental and Disposal Liabilities
Insurance and Guarantee Program Liabilities	3,436	3,436	-	-	-	3,436	Insurance and Guarantee Program Liabilities
Other Liabilities	15,541	3,914	-	11,627	-	15,541	Other Liabilities
Total Liabilities	**$ 130,570**	**$ 30,351**	**$ 179**	**$ 100,448**	**$ 50**	**$ 130,570**	**Total Liabilities**

FY 2021 DHS Balance Sheet		Line Items Used to Prepare FY 2021 Government-wide Balance Sheet					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated and All Other**	**Total**	**Reclassified Financial Statement Line**
NET POSITION							NET POSITION
Unexpended Appropriations – Funds from Other than Dedicated Collections	$ 132,437	$ -	$ -	$ 132,437	$ -	$ 132,437	Unexpended Appropriations – Funds from Other than Dedicated Collections
Total Unexpended Appropriations	132,437	-	-	132,437	-	132,437	Total Unexpended Appropriations
Cumulative Results of Operations – Funds from Dedicated Collections	(1,727)	(1,727)	-	-	-	(1,727)	Cumulative Results of Operations – Funds from Dedicated Collections
Cumulative Results of Operations – Funds Other than those from Dedicated Collections	(44,142)	-	-	(44,142)	-	(44,142)	Cumulative Results of Operations – Funds Other than those from Dedicated Collections
Total Cumulative Results of Operations	(45,869)	(1,727)	-	(44,142)	-	(45,869)	Total Cumulative Results of Operations
Total Net Position	**$ 86,568**	**$ (1,727)**	**$ -**	**$ 88,295**	**$ -**	**$ 86,568**	**Total Net Position**
Total Liabilities & Net Position	**$ 217,138**	**$ 28,624**	**$ 179**	**$ 188,743**	**$ 50**	**$ 217,138**	**Total Liabilities & Net Position**

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ending September 30, 2021 (in millions)

FY 2021 DHS SNC		Line Items Used to Prepare FY 2021 Government-wide SNC					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and All Other	Total	Reclassified Financial Statement Line
Gross Costs	$ 104,688						***Non-Federal Costs***
		$ 7,217	$ -	$ 76,438	$ -	$ 83,655	Non-Federal Gross Cost
		7,217	**-**	***76,438***	**-**	***83,655***	***Total Non-Federal Costs***
							Intragovernmental Costs
		540	-	6,267	-	6,807	Benefit Program Costs
		261	-	1,616	-	1,877	Imputed Costs
		1,602	1	9,790	912	10,479	Buy/Sell Costs
		357	-	3	-	360	Borrowing and Other Interest Expense
		103	-	1,407	-	1,510	Other Expenses (w/o Reciprocals)
		2,863	***1***	***19,083***	***912***	***21,033***	***Total Intragovernmental Costs***
Total Gross Costs	*104,688*	*10,080*	*1*	*95,521*	*912*	*104,688*	*Total Reclassified Gross Costs*
Earned Revenue	**(14,718)**	(9,630)	-	(3,136)	-	(12,766)	Non-Federal Earned Revenue
		(9,630)	**-**	***(3,136)***	**-**	***(12,766)***	***Intragovernmental Revenue***
		(55)	(1)	(2,355)	(489)	(1,920)	Buy/Sell Revenue
		(31)	-	-	-	(31)	Federal Securities Interest Revenue Including Associated Gains/Losses (Exchange)
		-	-	(1)	-	(1)	Borrowing and Other Interest Revenue
		(86)	***(1)***	***(2,356)***	***(489)***	***(1,952)***	***Total Intragovernmental Earned Revenue***
Total Earned Revenue	*(14,718)*	*(9,716)*	*(1)*	*(5,492)*	*(489)*	*(14,718)*	*Total Reclassified Earned Revenue*
(Gain)/Loss-Pension/ORB/OPEB Assumptions	1,573	-	-	1,573	-	1,573	(Gain)/Loss on Changes in Actuarial Assumptions (Non-Federal)
Net Cost	**$ 91,543**	**$ 364**	**$ -**	**$ 91,602**	**$ 423**	**$ 91,543**	**Net Cost**

Reclassification of Statement of Changes in Net Position to Line Items Used for Government-wide Statement of Operations and Changes in Net Position for the Year Ending September 30, 2021 (in millions)

FY 2021 DHS SCNP		Line Items Used to Prepare FY 2021 Government-wide SCNP					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated and All Other**	**Total**	**Reclassified Financial Statement Line**
UNEXPENDED APPROPRIATIONS							
Unexpended Appropriations, Beginning Balance	$ 94,375	$ -	$ -	$ 94,375	$ -	$ 94,375	Unexpended Appropriations, Beginning Balance
Appropriations Received	124,461	-	-	124,461	-	124,461	Appropriations Received as Adjusted
Other Adjustments	(635)	-	-	(635)	-	(635)	Appropriations Received as Adjusted
Appropriations Transferred In/Out	1	-	-	11	-	11	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources (Federal)
		-	-	(10)	-	(10)	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources (Federal)
Total Appropriations Transferred In/Out	*1*	-	-	*1*	-	*1*	*Total Reclassified Appropriations Transferred In/Out*
Appropriations Used	(85,765)	-	-	(85,765)	-	(85,765)	Appropriations Used (Federal)
Total Unexpended Appropriations	**$ 132,437**	**$ -**	**$ -**	**$ 132,437**	**$ -**	**$ 132,437**	
CUMULATIVE RESULTS OF OPERATIONS							
Cumulative Results, Beginning Balance	(44,797)	(2,598)	-	(42,199)	-	(44,797)	Cumulative Results, Beginning Balance, as adjusted
Other Adjustments	(1)	(1)	-	-	-	(1)	Revenue and Other Financing Sources – Cancellations (RC 36)
Appropriations Used	85,765	-	-	85,765	-	85,765	Appropriations Expended
Non-Exchange Revenues	1,879						***Non-Federal Non-Exchange Revenues***
		354	-	-	-	354	Excise Taxes
		86	-	-	-	86	Customs Duties
		556	-	1	-	557	Other Taxes and Receipts
		996	-	***1***	-	***997***	***Total Non-Federal Non-Exchange Revenues***
							Federal Non-Exchange Revenue
		84	-	-	-	84	Federal Securities Interest Revenue, including Associated Gains/Losses (Non-Exchange)
		798	-	-	-	798	Other Taxes and Receipts (RC 45)
		882	-	-	-	***882***	***Total Federal Non-Exchange Revenue***
Total Non-Exchange Revenues	*1,879*	*1,878*	-	*1*	-	*1,879*	*Total Non-Exchange Revenues*
Donations and Forfeitures of Property	41	41	-	-	-	41	Donations and Forfeitures of Property

FY 2021 DHS SCNP		Line Items Used to Prepare FY 2021 Government-wide SCNP					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and All Other	Total	Reclassified Financial Statement Line
Transfers In/Out w/o Reimbursement – Budgetary	(780)	3,468	3,376	-	-	92	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-In
		(4,052)	(3,376)	-	-	(676)	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-Out
		251	111	3,507	2,975	672	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources (RC 08)
		(8)	-	-	(8)	-	Non-Expenditure Transfers-Out of Financing Sources – Capital Transfers (RC 11)
		(3,894)	(111)	(12)	(2,975)	(820)	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
		22	21	403	54	350	Expenditure Transfers-In of Financing Sources (RC 09)
		(75)	(21)	(455)	(54)	(455)	Expenditure Transfers-Out of Financing Sources (RC 09)
		3,763	3,717	61	48	59	Transfers-In w/o Reimbursements (RC 18)
		(3,762)	(3,717)	(49)	(92)	(2)	Transfers-Out w/o Reimbursements (RC 18)
Total Transfers-In/Out w/o Reimbursement – Budgetary	*(780)*	*(4,287)*	-	*3,455*	*(52)*	*(780)*	*Total Transfers-In/Out w/o Reimbursement – Budgetary*
Other	1,687						***Non-Federal Other***
		3,194	-	(155)	-	3,039	Other Taxes and Receipts
		3,194	-	**(155)**	-	**3,039**	***Total Non-Federal Other***
							Intragovernmental Other
		146	-	-	-	146	Accrual of Collections Yet to be Transferred to a TAS Other than the General Fund of the U.S. Government Non-Exchange (RC 15)
		-	-	(1,500)	-	(1,500)	Non-Entity Collections Transferred to The General Fund of the U.S. Government (RC 44)
		-	-	2	-	2	Accrual for Non-Entity Amounts to Be Collected and Transferred to The General Fund of the U.S. Government (RC 48)
		146	-	***(1,498)***	-	***(1,352)***	***Total Intragovernmental Other***
Total Other	*1,687*	*3,340*	-	*(1,653)*	-	*1,687*	*Total Other*
Donations and Forfeitures of Cash and Cash Equivalents	3	3	-	-	-	3	Other Taxes and Receipts (Non-Federal)
Imputed Financing	1,877	261	-	1,616	-	1,877	Imputed Financing Sources (Federal)
Total Financing Sources	**90,471**	**1,235**	-	**89,184**	**(52)**	**90,471**	**Total Financing Sources**
Net Cost of Operations	**(91,543)**	**(364)**	-	**(91,602)**	**(423)**	**(91,543)**	**Net Cost of Operations**
Ending Balance – Cumulative Results of Operations	**$ (45,869)**	**$ (1,727)**	**$ -**	**$ (44,617)**	**$ (475)**	**$ (45,869)**	**Cumulative Results of Operations**
Total Net Position	**$ 86,568**	**$ (1,727)**	**$ -**	**$ 87,820**	**$ (475)**	**$ 86,568**	**Total Net Position**

FY 2021 DHS SCNP		Line Items Used to Prepare FY 2021 Government-wide SCNP					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and All Other	Total	Reclassified Financial Statement Line
Non-Exchange Statement of Custodial Activity							
Non-Exchange Custodial Collections from the SCA							
Custom Duties	$ 85,466	$ -	$ -	$ 85,466	$ -	$ 85,466	Custom Duties
User Fees	1,671	-	-	1,671	-	1,671	Non-Federal Other Taxes and Receipts
Excise Taxes	4,773	-	-	4,773	-	4,773	Excise Taxes
Fines and Penalties	117	-	-	117	-	117	Non-Federal Other Taxes and Receipts
Interest	55	-	-	55	-	55	Non-Federal Other Taxes and Receipts
Miscellaneous	62	-	-	62	-	62	Non-Federal Other Taxes and Receipts
Accrual Adjustments	1,249	-	-	44	-	44	Excise Taxes
		-	-	1,377	-	1,377	Custom Duties
		-	-	(172)	-	(172)	Non-Federal Other Taxes and Receipts
Total Non-Exchange Custodial Collections	*93,393*	-	-	93,393	-	93,393	Net Custodial Revenue
Disposition of Non-Exchange Custodial Collections							
Transferred to Federal Entities							
Department of Agriculture	25,959	-	-	25,959	-	25,959	Collections Transferred to a TAS other than the General Fund of the U.S. Government Non-Exchange (RC 15)
Treasury General Fund Accounts	56,992	-	-	56,992	-	56,992	Non-Entity Collections Transferred to the General Fund (RC 44)
United States Army Corps of Engineers	1,557	-	-	1,557	-	1,557	Collections Transferred to a TAS Other Than the General Fund of the U.S. Government Non-Exchange (RC 15)
Other Federal Agencies	82	-	-	82	-	82	Collections Transferred to a TAS Other Than the General Fund of the U.S. Government Non-Exchange (RC 15)
Total Transferred to Federal Entities	*84,590*	-	-	*84,590*	-	*84,590*	
Transferred to Non-Federal Entities	29	-	-	29	-	29	Non-Federal Other Taxes and Receipts
(Increase)/Decrease in Amounts Yet to be Transferred	1,405	-	-	57	-	57	Non-Federal Other Taxes and Receipts
		-	-	20	-	20	Accrual of Collections Yet to be Transferred to a TAS Other Than the General Fund of the U.S. Government – Non-Exchange (RC 16)
		-	-	1,381	-	1,381	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government

FY 2021 DHS SCNP		Line Items Used to Prepare FY 2021 Government-wide SCNP					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and All Other	Total	Reclassified Financial Statement Line
		-	-	(53)	-	(53)	Other Non-Federal Taxes and Receipts
Total (Increase)/Decrease in Amounts Yet to be Transferred	*1,405*	-	-	*1,405*	-	*1,405*	
Refunds and Other Payments	7,369	-	-	327	-	327	Excise Taxes
		-	-	6,837	-	6,837	Customs Duties
		-	-	205	-	205	Other Taxes and Receipts
Total Refunds and Other Payments	*7,369*	-	-	*7,369*	-	*7,369*	
Total Transferred to Non-Federal Entities	*8,803*	-	-	*8,803*	-	*8,803*	
Total Disposition of Non-Exchange Custodial Collections	*$ 93,393*	*$ -*	*$ -*	*$ 93,393*	*$ -*	*$ 93,393*	*Total Distribution of Collections*

31. COVID-19 Activity

Available Budgetary Resources

The available budgetary resources for DHS Components for COVID-19 activities in FY 2021 and FY 2020 are as follows:

For the Periods Ended September 30

(dollars in millions)

DHS Components	2021	2020
FEMA	$ 84,982	$ 92,663
All Other Components	1,396	720
Totals	**$ 86,378**	**$ 93,383**

In FY 2020, under the Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) DHS Components received $46,162 million in total funding consisting of supplemental appropriations of $45,873 million and transfers from the Department of Health and Human Services of $289 million. In addition, $29,358 million of FEMA Disaster Relief Fund (DRF) funding carried over from FY 2019 and $17,863 million of FY 2020 appropriations enacted for DRF, other than CARES Act, provided additional $47,221 million in funding available to carry out FEMA's disaster relief activity during FY 2020, including COVID-19 related activity.

In FY 2021, DHS Components received $50,013 million in funding from the American Rescue Plan Act (ARPA), 2021 (P.L. 117-2) with $50,000 million being appropriated to FEMA DRF and $13 million being directed to TSA for the Emergency TSA Employee Leave Fund to assist employees who were unable to work due to COVID-19. In addition, FEMA DRF carried over $15,792 million of funding from FY 2020 and received $19,142 million from the Consolidated Appropriations Act (CAA[8]), 2021 (P.L. 116-260) to carry out disaster relief activity, including COVID-19 related activity. DHS Components also carried over $591 million of the remaining CARES Act funding from FY 2020 and CBP received $840 million from the CAA, 2021 to offset the decrease in Immigration User Fees collected as a result of the coronavirus pandemic. See Note 3, Fund Balance with Treasury for additional information about DRF.

COVID-19 Programs & Activities Funded

The appropriations received from the CARES Act, ARPA, 2021, CAA, 2021, and other regular annual and multi-year appropriations were used to support the following DHS Components, programs, and activities:

[8] CAA, 2021 was an omnibus funding bill which provided regular, annual appropriations to DHS and other federal departments and specific COVID-related funding.

For the Periods Ended September 30, 2021 and 2020

Component	Program	Activities
CBP	Medical support; COVID-19 test kits; detainee transport; decontamination transportation; and Consumables	Expand medical services contract; provide testing kits to frontline personnel and detainees; provide ground transportation; decontaminate vehicle assets; care and sustenance of detainees; temporary duty and overtime pay; and offset reduced fee collections.
CISA	National Infrastructure Simulation and Analysis Center (NISAC) Lab projects for modeling impact; teleconference lines for large critical functions, COVID emergency support function program analyst support, and critical function mapping and mission support	Supply chain risk analysis and communication; development of strategic risk assessments of the 55 National critical functions; development of analytical assessments on lessons learned for risk management efforts; COVID-19 Secretary's Advisory Group analytical support focused on expediting DHS's contribution to recovery and restoration; supply chain assessment and capability development, including development of a Common Vulnerabilities and Exposures Numbering Authorities Tool prototype; supply chain risk analysis and communication; support for the Supply Chain Stabilization Task Force; support for the implementation of the National Response Framework; COVID-19 business continuity analysis.
CWMD	Bio support; research and development; and maintenance of the Medical and Public Health Information Sharing Environment System (MPHISE)	Airport passenger COVID screening; Southwest border COVID testing; surface contamination studies; maintain the MPHISE to prevent, prepare for, and respond to coronavirus, domestically or internationally.
FEMA	Mission support; disaster relief; firefighter grants; Emergency Management Performance Grants; and Emergency Food & Shelter Program	Provide individual assistance limited to the Crisis Counseling Program, Lost Wages Assistance Program[9], and Funeral Assistance Program[10]; provide public assistance for emergency protective measures, including direct federal assistance, and administrative expenses; expand access to vaccines and support vaccine distribution[11];

[9] The Presidential Memorandum issued on August 8, 2020 authorized the Acting Secretary of Homeland Security, acting through the FEMA Administrator to award grants to state and territory governments to administer supplemental payments for lost wages in accordance with section 408(e)(2) of the Stafford Act (42 U.S.C. 5174(e)(2)). The program provided $400 per week consisting of a $300 federal contribution and $100 state contribution per eligible claimant.

[10] The CAA, 2021 and ARPA, 2021 directed FEMA to provide financial assistance to individuals with funeral expenses incurred on or after January 20, 2020, as a result of COVID-19 under section 408(e)(1) of the Stafford Act (42 U.S.C. 5174(e)(1)). The Federal share of the cost shall be 100 percent with a maximum of $9,000 per deceased individual and $35,500 per application.

[11] As the federal government worked to increase the supply of COVID-19 vaccines across the nation, FEMA took steps to build the national infrastructure to readily distribute vaccines. Vaccination centers are established by state, local, tribal or territorial partners and may receive any combination of federal equipment, funding and personnel. These locations may vary in size and number of vaccinations they can administer in a day.

Component	Program	Activities
		provide resources for Personal Protective Equipment, State and Local emergency operations centers, non-congregate sheltering, medical field stations, medical ships, personnel to support medical sites, National Guard deployments, Crisis Counseling, and State administrative expenses; and the Assistance to Firefighter Grants (AFG) program, which provides critically needed resources that equip personnel to respond to the COVID-19 public health emergency and support community resilience.
ICE	Medical screening; hoteling cost; transportation cost; sanitation costs; and Dilley Quarantine Neighborhood	Medical screening for COVID-19 medical care of quarantined individuals at detention facilities; hoteling cost for individuals at three commercial; transportation of COVID-19 positive ICE detainees from medical quarantine or treatment facilities; sanitation costs for ICE detention facilities quarantine areas, and intake and check-in locations, as well as transportation vehicles due to the exposure; and establishing a COVID-19 quarantine neighborhood at a family residential center to allow for improved isolation of unaccompanied children and family units.
FLETC	Personal protective equipment and cleaning supplies for the FLETC students and staff	Provide personal protective equipment and cleaning supplies for FLETC students and staff to make for a safe training and working environment.
MGMT	Personal protective equipment and cleaning related supplies for the DHS workforce	Provide personal protective equipment and cleaning related supplies for DHS to make it safe for DHS employees to work in buildings.
OIG	Oversight of CARES Act funding	Salaries and expenses to provide oversight of activities supported by CARES Act funding.
S&T	Bioagent threat assessment and defense; counterterrorism; probabilistic analysis for national threats, hazards and risks; and research on operational efficiency	Environmental and aerosol sampling; DNA synthesis and gene assembly to rapidly characterize novel sequences; economic modeling; incident response planning; research and development.
TSA	Cleaning and sanitization at domestic and international checkpoints and other airport common areas; paid leave; overtime and travel costs; and explosive detection materials	Enhanced sanitization of passenger checkpoint, checked baggage, and TSA facilities; overtime for Transportation Security Officers; travel for National Deployment Officers to airports hard hit with COVID illness; purchase of single-use explosives detection swabs to protect against COVID transmission; provide employee paid COVID leave to employees; and support new and recurring training requirements for the Transportation Security Officers (TSO) workforce.
USCG	Reservists' Activities and IT Improvements	Mobilize USCG Reservists to prevent, prepare for and respond to coronavirus domestically and internationally;

Component	Program	Activities
		and improve the capability and capacity of USCG information technology systems and infrastructure to prevent, prepare for, and respond to coronavirus outbreaks.
USCIS	Immigrant benefit and petitions applications processing	Process immigrant benefit requests at domestic and international field and asylum offices with additional precautions to prevent the spread of COVID-19, including providing services without charge to applicants or petitioners whose fees are waived or exempted.

<u>COVID-19 Activity Obligations</u>

DHS incurred obligations for COVID-19 related activities of $39,665 million in FY 2021 and $53,447 million in FY 2020.

For the Periods Ended September 30

(dollars in millions)

DHS Components	2021	2020
FEMA	**$ 37,983**	**$ 53,078**
Individual Assistance	5,786	42,143
Lost Wages	694	41,684
Funeral Assistance	4,857	-
Other Individual Assistance	235	459
Public Assistance (includes vaccination activities)	32,167	10,538
Other FEMA programs	30	397
All Other Components	**1,682**	**369**
Totals	**$ 39,665**	**$ 53,447**

FEMA is authorized to provide many types of assistance including Lost Wages and Funeral Assistance; Public Assistance for emergency protective measures, including vaccination activities, direct Federal assistance, and administrative expenses, personal protective equipment (PPE), state and local Emergency Operations Center (EOC) operations, non-congregate sheltering, medical field stations, medical ships, personnel to support medical sites, National Guard deployments, crisis counseling, and state administrative expenses.

Remaining Budgetary Resources Available for Obligation Beyond FY 2021

For the Periods Ended September 30

(dollars in millions)

DHS Components	2021	2020
FEMA	$ 33,985	$ 15,840
All Other Components	74	543
Totals	**$ 34,059**	**$ 16,383**

Other COVID-19 Financial Statement Footnote Impacts

COVID-19 impact on the Department's assets, liabilities, costs, revenues, and net position are discussed in the Financial Overview section of the Management's Discussion and Analysis (MD&A). The following notes discuss significant COVID-19 impacts: Note 3, Fund Balance with Treasury, Note 6, Accounts Receivable, Net; Note 18, Other Liabilities; Note 24, Legal Arrangements Affecting the Use of Unobligated Balances; and Note 27, Net Adjustments to Unobligated Balances, Brought Forward, October 1.

32. Non-Custodial Non-Exchange Revenues

The majority of DHS non-custodial non-exchange revenues are collected by USCG and CBP. The USCG SFRBTF collects motorboat fuel taxes, excise taxes on sport fishing equipment, and import duties on fishing tackle and yachts. The USCG OSLTF collects taxes on oil, reimbursements from parties responsible for oil spills, fines, and penalties. Both trust funds collect interest revenue earned. The CBP Customs User Fees fund collects processing fees for air and sea passengers, commercial trucks, rail cars, private vessels and aircraft, commercial vessels, dutiable mail packages, and customs broker permits.

Non-custodial non-exchange revenues reported on the Consolidated Statements of Changes in Net Position for fiscal year ended September 30, 2021 consisted entirely of the tax year 2021 collections (in millions):

Non-Exchange Revenues	**2021**	**2021 Collections**
Excise Tax	$ 354	$ 354
Customs Duties	86	86
Federal Securities Interest Revenue	84	84
Other Taxes and Receipts	1,355	1,355
Total Amount of Federal Revenues Collected Less Refunds	**$ 1,879**	**$ 1,879**

Required Supplementary Information

Unaudited, see accompanying Independent Auditors' Report

1. Deferred Maintenance and Repairs

The Department presents deferred maintenance and repairs as of the end of the fiscal year in accordance with SFFAS No. 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32.* Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Deferred maintenance and repairs are activities that were not performed when they should have been, or that were scheduled to be performed but were delayed for a future period.

Deferred maintenance and repair amounts represent the cost to restore an asset's condition so that the asset provides acceptable services and achieves its expected life. Mission performance metrics reports, scorecards, and historical records are used as objective evidence of deficiencies in deferred maintenance and repairs. Project management reviews of the inputs are conducted to identify maintainability and reliability, labor costs, design costs, technical expertise required, organizational reparability, organizational spares availability, and opportunities to use spare parts from property that may be retired.

Defining and Implementing Maintenance and Repairs Policies. The Department measures deferred maintenance and repairs for each class of asset using condition assessments performed at least once every five years. These assessments include surveys, inspections, operating evaluations, regional strategic assessments, facility quality ratings, and consolidated support function plans. Deferred maintenance and repair procedures are performed for capital and non-capital accountable personal and real property, capitalized stewardship PP&E including multi-use heritage assets—such as buildings and structures, memorials, and recreational areas—as well as inactive and excess property that is not required to fulfill the Component missions or have been withdrawn from operational service. Most of these assets have been fully depreciated. The condition of the assets included in these assessments ranges from good to poor. Components identify maintenance not performed as scheduled and establish future performance dates.

The Department allows Components the flexibility to apply industry standard methods commensurate with each asset's condition and usage, unless more thorough procedures are mandated by federal, state, or local codes. Components estimate the cost to address deferred maintenance and repair deficiencies using construction, maintenance, and repair cost data available through the Components' real property structure.

Ranking and Prioritizing Maintenance and Repair Activities. The Department ranks and prioritizes deferred maintenance and repair activities based on mission criticality to the operations of the Department and legal requirements, as well as the condition of the asset. Deferred maintenance and repair projects are prioritized among other activities as part of the Department's five-year strategic plan and annual capital budgeting processes.

Factors Considered in Setting Acceptable Condition. Acceptable condition is primarily prescribed by the facility condition assessments or other similar methodology. The condition assessment process includes factors such as asset age, operating environment, inventory levels, threat vulnerability, and current condition as determined by physical inspection, operating environment, and maintenance and repair history of the asset under assessment. The Department also considers federal requirements (including OMB's Federal Real Property Profile), accessibility, mission criticality, and needs.

Heritage Assets Excluded under Deferred Maintenance and Repairs. The Department possesses certain types of heritage assets that are not reported in deferred maintenance and repairs. These heritage assets include artifacts, artwork, display models, and sunken vessels and aircraft that have deteriorated through damage due to moving and transportation, storage or display, or environmental degradation.

Significant Changes from Prior Year. As of September 30, 2021, $1,768 million in deferred maintenance and repairs was estimated to return real property assets to acceptable operating condition. This is an overall decrease of $119 million.

Deferred maintenance and repairs for FY 2021, by asset class, consisted of (in millions):

	Ending	Beginning
Active:		
Buildings, Structures, and Facilities	$ 1,498	$ 1,627
Furniture, Fixtures, and Equipment	210	175
Other General PP&E	47	68
Heritage assets	8	12
Total Active	**$ 1,763**	**$ 1,882**
Inactive and Excess:		
Buildings, Structures, and Facilities	$ 3	$ 3
Heritage assets	2	2
Total Inactive and Excess	**$ 5**	**$ 5**
Total Deferred Maintenance	**$ 1,768**	**$ 1,887**

2. Combining Statement of Budgetary Resources

The principal Statement of Budgetary Resources combines the availability, status, and outlays of the Department's budgetary resources during FY 2021. The following table provides the Statement of Budgetary Resources disaggregated by DHS Components rather than by major budget account because the Department manages its budget at the Component level.

Combining Statement of Budgetary Resources by Sub-Organization Accounts
For the Year Ended September 30, 2021 (in millions)

	CBP	FEMA	ICE	TSA	USCG	USCIS	USSS	CISA	Dept Ops. and Others	TOTAL
BUDGETARY RESOURCES										
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	$ 4,784	$ 31,938	$ 1,013	$ 935	$ 4,099	$ 1,318	$ 238	$ 192	$ 2,438	**$ 46,955**
Appropriations (discretionary and mandatory) (Note 27)	24,138	75,623	8,220	7,344	13,092	4,833	2,719	2,673	3,800	**142,442**
Borrowing Authority (discretionary and mandatory) (Note 23)	-	32	-	-	-	-	-	-	-	**32**
Spending Authority from Offsetting Collections (discretionary and mandatory)	1,343	3,994	220	1,201	498	71	31	12	2,190	**9,560**
TOTAL BUDGETARY RESOURCES	**$ 30,265**	**$111,587**	**$ 9,453**	**$ 9,480**	**$ 17,689**	**$ 6,222**	**$ 2,988**	**$ 2,877**	**$ 8,428**	**$ 198,989**
STATUS OF BUDGETARY RESOURCES										
New Obligations and Upward Adjustments (total)	$ 26,272	$ 69,213	$ 8,621	$ 8,671	$ 13,555	$ 4,523	$ 2,798	$ 2,332	$ 6,187	**$ 142,172**
Unobligated Balance, End of Year										
Apportioned, Unexpired Accounts	2,432	42,131	466	569	3,802	391	92	482	1,772	**52,137**
Exempt from Apportionment, Unexpired Accounts	2	-	-	-	3	-	2	-	-	**7**
Unapportioned, Unexpired Accounts	945	43	35	68	62	1,280	1	2	68	**2,504**
Unexpired Unobligated Balance, End of Year	3,379	42,174	501	637	3,867	1,671	95	484	1,840	**54,648**
Expired Unobligated Balance, End of Year	614	200	331	172	267	28	95	61	401	**2,169**
Unobligated Balance Brought Forward, End of Year	**3,993**	**42,374**	**832**	**809**	**4,134**	**1,699**	**190**	**545**	**2,241**	**56,817**
TOTAL BUDGETARY RESOURCES	**$ 30,265**	**$111,587**	**$ 9,453**	**$ 9,480**	**$ 17,689**	**$ 6,222**	**$ 2,988**	**$ 2,877**	**$ 8,428**	**$ 198,989**
OUTLAYS, NET AND DISBURSEMENTS, NET										
Outlays, Net (total) (discretionary and mandatory)	24,790	45,502	8,219	6,927	12,296	4,219	2,675	2,052	3,549	**110,229**
Distributed Offsetting Receipts (-)	(3,788)	(1,009)	(200)	(1,691)	(156)	(5,268)	-	-	(25)	**(12,137)**
Agency Outlays, Net (discretionary and mandatory)	$ 21,002	$ 44,493	$ 8,019	$ 5,236	$ 12,140	$ (1,049)	$ 2,675	$ 2,052	$ 3,524	$ 98,092
Disbursements, Net (total) (mandatory)	$ -	$ 22	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 22

3. *Custodial Activity*

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

CBP reviews selected documents to ensure all duties, taxes, and fees owed to the Federal Government are paid and to ensure all regulations are followed. If CBP determines 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 Center Director. A protest allows the importer/violator the opportunity to submit additional documentation supporting the claim of a lower amount due or to cancel the additional amount due in its entirety. During this protest period, CBP does not have a legal right to the importer/violator's assets, and consequently CBP recognizes accounts receivable only when the protest period has expired, or an agreement is reached.

For FY 2021 and FY 2020, CBP had the legal right to collect $8,093 million and $6,783 million of receivables, respectively. In addition, there were $3,821 million and $2,081 million representing records still in the protest phase for both FY 2021 and FY 2020, respectively. CBP recognized as write-offs $461 and $84 million, respectively, of assessments that the Department had statutory authority to collect at September 30, 2021, and 2020, but have no future collection potential. Most of this amount represents duties, taxes, and fees.

Independent Auditors' Report

OFFICE OF INSPECTOR GENERAL

Independent Auditors' Report on DHS' FY 2021 Financial Statements and Internal Control over Financial Reporting

Homeland Security

November 12, 2021

OIG-22-08

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

November 12, 2021

MEMORANDUM FOR: The Honorable Alejandro Mayorkas
Secretary
Department of Homeland Security

FROM: Glenn Sklar GLENN E SKLAR Digitally signed by GLENN E SKLAR Date: 2021.11.12 13:07:39 -05'00'
Principal Deputy Inspector General

SUBJECT: *Independent Auditors' Report on DHS' FY 2021 Financial Statements and Internal Control over Financial Reporting*

The attached report presents the results of an integrated audit of the Department of Homeland Security's (DHS') consolidated financial statements for fiscal years 2021 and 2020 and internal control over financial reporting as of September 30, 2021. This audit is required by the *Chief Financial Officers Act of 1990*, as amended by the *Department of Homeland Security Financial Accountability Act* (October 16, 2004).

We contracted with the independent public accounting firm KPMG LLP (KPMG) to conduct the audit. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget audit guidance, and the GAO/CIGIE *Financial Audit Manual*.

The Department continued to improve its financial management in FY 2021 and achieved an unmodified (clean) opinion on all financial statements. However, KPMG issued an adverse opinion on DHS' internal control over financial reporting because of material weaknesses in internal control. KPMG identified material weaknesses in internal control in two areas and significant deficiencies in four areas. KPMG also reported two instances of noncompliance with laws or regulations.

Below are the areas in which KPMG identified material weaknesses, significant deficiencies, and laws or regulations with which KPMG identified noncompliance.

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OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Material Weaknesses in Internal Control

- Information Technology Controls and Information Systems
- Financial Reporting

Significant Deficiencies in Internal Control

- Custodial Activities: Drawbacks and Seized and Forfeited Property
- Grants Management and Other Needs Assistance Programs
- Insurance Liabilities
- Journal Entries

Noncompliance with Laws or Regulations

- *Federal Managers' Financial Integrity Act of 1982* (FMFIA)
- *Federal Financial Management Improvement Act of 1996* (FFMIA)

Moving DHS' Financial Management Forward

This past fiscal year, the Department continued its commitment to developing and monitoring corrective actions to strengthen its internal controls and remediate remaining challenges. Looking forward, to sustain a clean opinion on its financial statements and obtain a clean opinion on its internal control over financial reporting, the Department must continue remediation efforts and stay focused.

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KPMG is responsible for the attached Independent Auditors' Report dated November 12, 2021, and the conclusions expressed in the report. We do not express opinions on DHS' financial statements or internal control over financial reporting or conclusions on compliance and other matters.

Consistent with our responsibility under the *Inspector General Act of 1978, as amended*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Bruce Miller, Deputy Inspector General for Audits, at (202) 981-6000.

Attachment

DHS OIG HIGHLIGHTS

Independent Auditors' Report on DHS' FY 2021 Financial Statements and Internal Control over Financial Reporting

November 12, 2021

Why We Did This Audit

The *Chief Financial Officers Act of 1990* (Public Law 101-576) and the *Department of Homeland Security Financial Accountability Act* (Public Law 108-330) require us to conduct an annual audit of the Department of Homeland Security's consolidated financial statements and internal control over financial reporting.

What We Recommend

KPMG made 20 recommendations to improve the Department's internal control over financial reporting.

For Further Information:
Contact our Office of Public Affairs at (202) 981-6000, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

The independent public accounting firm KPMG LLP (KPMG) has issued an unmodified (clean) opinion on DHS' consolidated financial statements. KPMG noted that the financial statements present fairly, in all material respects, DHS' financial position as of September 30, 2021 and 2020.

KPMG issued an adverse opinion on DHS' internal control over financial reporting as of September 30, 2021. KPMG identified material weaknesses in internal control in two areas and significant deficiencies in four areas. KPMG also reported two instances of noncompliance with laws or regulations.

Material Weaknesses in Internal Control

- Information Technology Controls and Information Systems
- Financial Reporting

Significant Deficiencies in Internal Control

- Custodial Activities: Drawbacks and Seized and Forfeited Property
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Management's Response

DHS concurred with all of the recommendations.

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OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Table of Contents

Appendixes

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

Independent Auditors' Report

Secretary and Inspector General
U.S. Department of Homeland Security:

Report on the Financial Statements and Internal Control

We have audited the accompanying consolidated financial statements of the U.S. Department of Homeland Security (DHS), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements. We also have audited DHS's internal control over financial reporting as of September 30, 2021, based on criteria established in the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States.

Management's Responsibility for the Financial Statements and Internal Control over Financial Reporting

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements and an opinion on DHS's internal control over financial reporting based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 21-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

KPMG

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditors' judgment, including the assessment of the risks that a material weakness exists. An audit of internal control over financial reporting also includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Opinion on Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Homeland Security as of September 30, 2021 and 2020, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 15 to the consolidated financial statements, DHS had intragovernmental debt used to finance the National Flood Insurance Program (NFIP) of approximately $21 billion as of September 30, 2021 and 2020. The principal and interest payments are financed by the flood premiums from policyholders. Given the current rate structure, DHS will not be able to pay its debt from the premium revenue alone; therefore, DHS does not anticipate repaying the debt. Our opinion is not modified with respect to this matter.

Basis for Adverse Opinion on Internal Control over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. Material weaknesses have been identified in the following areas, as described in the accompanying Exhibit I and included in the accompanying *Management's Report on Internal Control over Financial Reporting*.

A. Information Technology Controls and Information Systems
B. Financial Reporting

2

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We considered the material weaknesses identified above in determining the nature, timing, and extent of audit procedures applied in our audit of the fiscal year 2021 consolidated financial statements, and these material weaknesses do not affect our opinion on the financial statements.

Adverse Opinion on Internal Control over Financial Reporting

In our opinion, because of the effect of the material weaknesses described in the Basis for Adverse Opinion paragraph above on the achievement of the objectives of the control criteria, DHS has not maintained effective internal control over financial reporting as of September 30, 2021, based on criteria established in *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States.

Other Matters

Interactive Data

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

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information in the About this Report, Message from the Secretary, Message from the Chief Financial Officer, Introduction, Other Information, and Acronym List sections, as listed in the Table of Contents of the *Agency Financial Report*, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the following areas, as described in Exhibit II, to be significant deficiencies.

3

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C. Custodial Activities: Drawbacks and Seized and Forfeited Property
D. Grants Management and Other Needs Assistance Programs
E. Insurance Liabilities
F. Journal Entries

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DHS's consolidated financial statements as of and for the year ended September 30, 2021 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 21-04 and are described in Exhibit III.

G. *Federal Managers' Financial Integrity Act of 1982* (FMFIA)

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances, described in Exhibit III, in which the DHS's financial management systems did not substantially comply with the Federal financial management systems requirements or applicable Federal accounting standards. The results of our tests disclosed no instances in which the DHS's financial management systems did not substantially comply with the United States Government Standard General Ledger at the transaction level.

DHS's Responses to Findings

DHS's responses to the findings identified in our audit are described in Appendix A. DHS's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the deficiencies we consider to be significant deficiencies, and the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 12, 2021

4

Independent Auditors' Report
Exhibit I – Material Weaknesses

The weaknesses in internal control existed as of September 30, 2021 and the instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements were identified during the year ended September 30, 2021. The determination of which control deficiencies rise to the level of a material weakness or a significant deficiency is based on an evaluation of the impact of control deficiencies identified in all components, considered individually and in the aggregate, on the DHS consolidated financial statements as of September 30, 2021. Component-level deficiencies vary in severity. The associated entity level controls, as defined by the Government Accountability Office's *Standards for Internal Control in the Federal Government,* issued by the Comptroller General of the United States (Green Book), are also identified in relation to the control activities in the corresponding areas of the following Exhibits.

The findings are presented in three Exhibits:

Exhibit I Material Weaknesses. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. DHS has material weaknesses within the following areas:

A. Information Technology Controls and Information Systems
B. Financial Reporting

Exhibit II Significant Deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by DHS management and others in positions of DHS oversight. DHS has significant deficiencies within the following areas:

C. Custodial Activities: Drawbacks and Seized and Forfeited Property
D. Grants Management and Other Needs Assistance Programs
E. Insurance Liabilities
F. Journal Entries

Exhibit III Compliance and Other Matters. The compliance and other matters identified included instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters that are required to be reported under *Government Auditing Standards* or Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. DHS has instances of noncompliance as follows:

G. *Federal Managers' Financial Integrity Act of 1982*
H. *Federal Financial Management Improvement Act of 1996*

Criteria DHS's internal control over financial reporting is based on the criteria established by the Green Book.

Independent Auditors' Report
Exhibit I – Material Weaknesses

I-A Information Technology Controls and Information Systems

Background:

Information technology (IT) controls are a critical subset of an entity's internal control. There are two main types of IT controls: IT general controls (ITGCs) and application controls. ITGCs operate over entire or large portions of systems and represent the foundation of an IT control structure. They are applied at the entity-wide, operating system, database, or application level, and include controls over access, segregation of duties, configuration management, and security management. Effective ITGCs are necessary to create the foundation for the operation of application controls. Application controls are those controls that directly relate to specific IT applications and ensure completeness, accuracy, validity, confidentiality, and availability of data. The deficiencies indicated in this Exhibit are representative of ITGC and application control deficiencies at headquarters and various components across DHS including U.S. Customs and Border Protection (CBP), Federal Emergency Management Agency (FEMA), U.S. Immigration and Customs Enforcement (ICE), Management Directorate (MGMT), Transportation Security Agency (TSA), U.S. Coast Guard (USCG), and U.S. Citizenship and Immigration Services (USCIS).

Conditions:

DHS did not design and implement the entity's information systems and related control activities to achieve objectives and respond to risks as required by Green Book principles 11, *Design Activities for Information Systems*, and 12, *Implement Control Activities*. Specifically, DHS had:

- Ineffective design, implementation, or operating effectiveness of ITGCs over IT operating systems, databases, and applications supporting financial reporting processes across DHS in the following areas:

  Access control and segregation of duties

  - User, service, privileged, and generic (including emergency, temporary, developer, and migrator) accounts not properly authorized, recertified, and revoked timely;
  - The principles of least privilege and segregation of duties not applied;
  - Password security not properly configured for data protection and inactivity;
  - Audit logging activity requirements not defined;
  - Audit logs not generated, reviewed, or analyzed;

  Configuration management

  - Systems not properly configured;
  - System changes not documented, authorized, or monitored;

  Security management

  - Assessments and documentation required for a system Authority to Operate (ATO) not completed or approved; and
  - Periodic reviews of the results of vulnerability scans not performed.
- Ineffective implementation of policies and procedures prior to system migration.
- Ineffective design, implementation, or operating effectiveness of ITGCs at service organizations.
- Ineffective application controls and manual controls that are dependent upon the information derived from DHS information systems.

DHS continued to have deficiencies in its design and implementation of controls over IT Controls and Information Systems. These deficiencies have persisted since the inception of DHS. As a result, DHS

I.2

did not remediate identified internal control deficiencies on a timely basis as required by Green Book principle 17, *Evaluate Issues and Remediate Deficiencies*. Specifically, DHS had:

- Ineffective design and implementation of controls to remediate IT findings, including insufficient corrective actions to address deficiencies that have existed for several years in multiple information systems.

Causes:

These deficiencies are a result of the failure of entity level controls, as follows:

Green Book principle 7 requires that "Management should identify, analyze, and respond to risks related to achieving the defined objectives." DHS did not effectively implement and operate Green Book principle 7. Specifically:

- DHS did not fully implement a robust risk assessment of ITGCs that is necessary to identify weaknesses, nor did it assess the resulting risks created by IT deficiencies.
- DHS did not resolve the risks created by historic limitations in the functionality of its information systems.
- DHS did not successfully mitigate the risk created by implementing manual controls to compensate for risks resulting from decentralized systems and records management processes or utilities with limited automated capabilities.

Green Book principle 16 requires that "Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results." DHS did not effectively implement and operate Green Book principle 16. Specifically:

- DHS did not effectively implement a formalized process to monitor the third-party service organizations responsible for maintaining the infrastructure support for various IT systems.
- DHS established corrective action plans but had not monitored them to ensure they were tracking the progress toward remediation of deficiencies timely.

Effects:

Deficiencies in access controls and segregation of duties increase the risk that current employees, separated employees, or contractors may obtain unauthorized or inappropriate access to information systems or data. Such access could lead to unauthorized activities or inappropriate disclosures of sensitive data. Deficiencies in configuration management increase the risk that unauthorized or inappropriate changes to systems will be applied and go undetected by management, resulting in lower assurance that information systems will operate as intended and that data is reliable, valid, and complete. Deficiencies in security management increase the risk that system vulnerabilities will not be identified and remediated, compromising the reliability and integrity of data and increasing the risk of data loss.

In addition, system limitations contribute to deficiencies in multiple financial process areas across DHS. Many key DHS information systems are not compliant with Federal financial management system requirements as defined by FFMIA, as noted in Exhibit III. These system limitations cause a greater risk of error and result in inconsistent, incomplete, or inaccurate control execution.

Collectively, DHS not performing an appropriate risk assessment to identify and mitigate the ITGC and application control deficiencies limits DHS's ability to process, store, and report financial data in a manner that ensures accuracy, confidentiality, integrity, and availability. In response to these deficiencies, DHS intended to utilize manual controls; however, these manual controls often were not properly designed or implemented, or did not operate effectively, as reported in Exhibits I and II.

Independent Auditors' Report
Exhibit I – Material Weaknesses

Recommendations:

We recommend that DHS:

1. Office of the Chief Financial Officer (OCFO), in coordination with the Office of the Chief Information Officer (OCIO), the Office of the Chief Information Security Officer (OCISO), and component IT and financial management, complete a comprehensive risk analysis and develop a mitigation plan to reduce risks related to ITGC and application control deficiencies timely;

2. OCFO, in coordination with the OCIO, the OCISO, and component IT and financial management, design and implement an effective internal control process to address the risk of errors due to IT system functionality issues, the inability to rely on information derived from systems, and the inability to rely on application controls until system deficiencies are remediated;

3. OCISO, the OCIO, and component IT management sufficiently monitor IT vulnerabilities and limitations, and coordinate with the OCFO and component financial management to implement manual controls to mitigate risk;

4. OCFO, in coordination with the OCIO, the OCISO, and component IT and financial management, design and implement an effective internal control process to review service organization risks to ensure that ineffective ITGCs performed by service organizations are evaluated and appropriate compensating controls are designed and implemented by DHS and component management; and

5. OCFO, in coordination with the OCIO, the OCISO, and component IT and financial management, make the necessary improvements to DHS's ITGC and application controls timely, as detailed in limited distribution Notices of Findings and Recommendations to DHS and component management, and monitor corrective action plans.

I.4

Independent Auditors' Report
Exhibit I – Material Weaknesses

I-B Financial Reporting

Background:

Internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, and is designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles.

Conditions:

DHS did not design control activities to achieve objectives and respond to risks as required by Green Book principle 10, *Design Control Activities*, or implement the entity's information systems and related control activities through policies as required by Green Book principles 11, *Design Activities for Information Systems*, and 12, *Implement Control Activities*. Specifically, DHS had:

- Ineffective design, implementation, or operating effectiveness of controls supporting financial reporting processes across DHS in the following areas:

  Service organization control (SOC) reports

  - Service provider risks not addressed by obtaining and effectively reviewing SOC reports, or by assessing the risks when a SOC report does not exist, at multiple components across DHS;

  Application controls and information derived from systems

  - Manual controls to compensate for application control deficiencies not designed and implemented at multiple components across DHS;
  - Baseline assessments of application controls and information derived from systems with effective ITGCs not performed at CBP and headquarters; and

  Application of Accounting Standards for New Programs

  - Other liabilities not identified at FEMA.

DHS continued to have deficiencies in its design and implementation of controls over Financial Reporting. DHS did not remediate identified internal control deficiencies on a timely basis as required by Green Book principle 17, *Evaluate Issues and Remediate Deficiencies*. DHS did not remediate identified control deficiencies that have existed for multiple prior years on a timely basis.

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 5 requires that "Management should evaluate performance and hold individuals accountable for their internal control responsibilities." DHS did not effectively implement and operate Green Book principle 5. Specifically:

- DHS did not enforce accountability of personnel responsible for the review of SOC reports.

Green Book principle 7 requires that "Management should identify, analyze, and respond to risks related to achieving the defined objectives." DHS did not effectively implement and operate Green Book principle 7. Specifically:

- DHS did not fully implement a robust risk assessment of ITGCs to identify weaknesses.
- DHS did not assess the risks created by IT deficiencies and their impact on other controls.

Green Book principle 9 requires that "Management should identify, analyze, and respond to significant changes that could impact the internal control system." DHS did not effectively implement and operate Green Book principle 9. Specifically:

- DHS did not analyze changes resulting from new funeral expense reimbursement program.

Independent Auditors' Report
Exhibit I – Material Weaknesses

Green Book principle 13 requires that "Management should use quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 13. Specifically:

- DHS did not process data into quality information that was useable for operating controls effectively.
- DHS did not perform baseline testing of information generated by applications prior to relying on that information as part of a control.

Green Book principle 16 requires that "Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results." DHS did not effectively implement and operate Green Book principle 16. Specifically:

- DHS did not perform continuous monitoring and testing of IT and financial controls for all significant areas.
- DHS did not sufficiently monitor the status of corrective action plans.
- DHS did not monitor the activities and controls performed by service organizations.
- DHS did not monitor the service organization's controls surrounding the compilation of the National Flood Insurance Program (NFIP) financial statements and the related IT systems used to process insurance policies.
- DHS did not design and implement sufficient procedures to review SOC reports, including identification and assessment of complementary user entity controls.

Effects:

The failure to perform continuous monitoring and testing of IT and financial controls results in lack of timely remediation of existing deficiencies and noncompliance with FMFIA, as reported in Exhibit III.

The failure to adequately design, implement, and operate internal controls related to oversight of service organizations increases the risk that misstatements can occur without being prevented, or detected and corrected timely.

The failure to adequately design, implement, and operate internal controls related to the baseline assessment of application controls and information derived from systems prevents management from relying on application controls. It also prevents management from relying on the information derived from systems used to record transactions and perform control activities.

The lack of compensating controls for IT deficiencies also results in noncompliance with Federal financial management system requirements, as defined by FFMIA and reported in Exhibit III.

The failure to adequately assess new programs increases the risk that financial information is not compliant with accounting standards, including insufficient recognition of related liabilities.

Recommendations:

We recommend that DHS:

6. provide training and enforce accountability for adherence to policies and procedures and provide the necessary financial reporting oversight;
7. improve the process for identification, analysis, and response over significant changes and updates to risks assessments related to financial reporting, including risks associated with new programs;
8. align knowledgeable individuals to monitor and evaluate the roles of service organizations, assess controls at those service organizations, and identify and assess complementary user entity controls within the components relying on those service organizations; and
9. improve monitoring controls over assessing internal controls and remediating known internal control deficiencies timely.

I.6

Independent Auditors' Report
Exhibit II – Significant Deficiencies

II-C Custodial Activities: Drawbacks and Seized and Forfeited Property

Background:

The majority of DHS's custodial collections are from merchandise entering the United States from foreign ports of origin, against which DHS assesses import duties, taxes, and fees.

Drawback claims typically occur when imported goods on which duties, taxes, or fees have been previously paid are subsequently exported from the United States or destroyed. The *Trade Facilitation and Trade Enforcement Act of 2015* (TFTEA), implemented in February 2019, contained provisions for drawback modernization that simplified the rules for determining if exports are eligible for drawback refunds, expanded the timeframe for drawback claims, and eliminated some of the documentation requirements. All drawback claims filed after the implementation date are filed under the regulations in Code of Federal Regulations (CFR) 190. Drawback claims filed prior to the TFTEA implementation date were filed under the regulations in CFR 191.

DHS is also responsible for reporting seized and forfeited property that is in its custody. DHS seizes various items, including prohibited drugs and counterfeit goods. DHS relies on several of its components to enter case information, including weights and measures, into the seized and forfeited property system.

Conditions:

DHS did not design and implement control activities to achieve objectives and respond to risks as required by Green Book principles 10, *Design Control Activities*, or implement control activities through policies as required by Green Book principle 12, *Implement Control Activities*. Specifically, at CBP, DHS had:

- Ineffective design, implementation, or operating effectiveness of controls supporting custodial activities in the following areas:

  Drawbacks:

  - Excessive pre-TFTEA drawback claims not prevented or detected and corrected;
  - Supporting documentation for pre-TFTEA drawback claims not maintained;
  - TFTEA drawback risks not assessed or monitored; and

  Seized and forfeited property:

  - Seized and forfeited asset transactions not recorded properly and timely in the seized and forfeited assets tracking system by CBP and ICE personnel.

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 4 requires that "Management should demonstrate a commitment to recruit, develop, and retain competent individuals." DHS did not effectively implement and operate Green Book principle 4. Specifically:

- DHS did not sufficiently train individuals to develop competencies for key roles in executing the internal control objectives related to the seized and forfeited property note to the financial statements, including use of the new destruction module in the system of record.

Green Book principle 7 requires that "Management should identify, analyze, and respond to risks related to achieving the defined objectives." DHS did not effectively implement and operate Green Book principle 7. Specifically:

- DHS did not analyze and respond to identified risks related to drawback claims submitted prior to the implementation of TFTEA.

Green Book principle 9 requires that "Management should identify, analyze, and respond to significant changes that could impact the internal control system." DHS did not effectively implement and operate Green Book principle 9. Specifically:

- DHS did not identify whether existing drawback controls addressed the identified risks.

Green Book principle 14 requires that "Management should internally communicate the necessary quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 14. Specifically:

- DHS did not communicate quality information down and across reporting lines to enable personnel to perform key roles related to seized and forfeited property.

Green Book principle 15 requires that "Management should externally communicate the necessary quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 15. Specifically:

- DHS did not communicate quality information to claimants and brokers related to the document retention period for drawback claims.

Effects:

Until all CFR 191 drawback claims are processed, DHS's failure to implement effective controls over the drawback process may subject DHS to financial loss due to excessive drawback claims. In addition, drawback claims are governed by the laws and regulations in effect at the time of filing.

The failure to fully establish and define control activities related to the drawback processes could lead to potential misstatements of payables on the Balance Sheet and drawback disbursements on the Statement of Custodial Activity.

Failure to fully establish and define control activities related to seized and forfeited property may result in misstatements of the Seized and Forfeited Property note to the financial statements.

Recommendations:

We recommend that DHS:

Drawbacks:

10. complete a robust risk assessment related to TFTEA drawback claims;
11. track and monitor the progress made in liquidating legacy drawback claims to support timely liquidation in accordance with the requirements of CFR 191;
12. continue to communicate the appropriate retention period to claimants and brokers; and

Seized and forfeited property:

13. enhance existing controls, including communicating quality information and training individuals for key roles, to prevent and detect material errors in the seized property footnote.

Independent Auditors' Report
Exhibit II – Significant Deficiencies

II-D Grants Management and Other Needs Assistance Programs

Background:

DHS manages multiple Federal disaster and non-disaster grant programs, as well as other needs assistance programs, including programs related to the coronavirus pandemic. In FY 2018, DHS began implementation of the process to standardize all grant management activities, which continued into FY 2021. This included coordination among the grant regional offices and central management as well as among the various grant programs. In order to monitor the spending of the disaster and non-disaster grant funding, DHS performs site visits and monitors Federal Financial Reports submitted by grant recipients. In FY 2020, DHS implemented a new other needs assistance program to provide lost wages assistance to state entities to supplement unemployment benefits related to the coronavirus pandemic. In FY 2021, DHS implemented an other needs assistance program to provide financial assistance for COVID-19 related funeral expenses.

Conditions:

DHS did not design control activities to achieve objectives and respond to risks as required by Green Book principle 10, *Design Control Activities*, or implement control activities through policies as required by Green Book principle 12, *Implement Control Activities*. Specifically, at FEMA, DHS had:

- Ineffective controls over monitoring of grant recipients;
- Ineffective controls over the review of non-disaster grant obligations and deobligations; and
- Ineffective controls over the lost wages accrual calculation.

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 5 requires that "Management should evaluate performance and hold individuals accountable for their internal control responsibilities." DHS did not effectively implement and operate Green Book principle 5. Specifically:

- DHS did not enforce accountability of personnel responsible for monitoring grant recipients and reviewing non-disaster grant obligations and deobligations.

Green Book principle 13 requires that "Management should use quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 13. Specifically:

- DHS failed to use reliable data to calculate the lost wages accrual.

Effects:

The failure to use quality information to implement standardized internal controls within DHS during FY 2021 caused ineffective monitoring of open and closed grants. Ineffective monitoring may result in inaccurate or unauthorized expense reporting by grant recipients and increases the risk that DHS may not identify corrective actions for grant recipients timely. In addition, DHS's failure to use quality information elevates the risk of inaccurate obligations, including accruals.

Recommendations:

We recommend that DHS:

14. provide training and enforce accountability for adherence to policies and procedures for monitoring grant recipients and reviewing non-disaster grant obligations and deobligations; and
15. enforce policies and procedures to use reliable data in accrual calculations.

II.3

Independent Auditors' Report
Exhibit II – Significant Deficiencies

II-E Insurance Liabilities

Background:

DHS manages the NFIP, a program to provide flood insurance to policyholders through a network of write-your-own (WYO) insurance companies. These insurance companies provide services on behalf of DHS, including underwriting premium policies and processing claims. In FY 2020, DHS implemented a new information system to aggregate the WYO financial information. DHS used the WYO data, along with NFIP loss and loss adjustment expense factors, to estimate the actuarially derived flood insurance liability for claims incurred but not yet reported as of September 30, 2021.

Conditions:

DHS did not design control activities to achieve objectives and respond to risks as required by Green Book principle 10, *Design Control Activities*, or implement the related control activities through policies as required by Green Book principle 12, *Implement Control Activities*. Specifically, at FEMA, DHS had:

- Insufficient design of the controls over the validation of the underlying data used in the valuation of the flood insurance liability; and
- Insufficient design and implementation of the controls over the assumptions, methods, and models used in the valuation of the flood insurance liability.

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 9 requires that "Management should identify, analyze, and respond to significant changes that could impact the internal control system." DHS did not effectively implement and operate Green Book principle 9. Specifically:

- DHS did not properly assess and document the appropriateness of changes to the methods, models, and assumptions for the actuarial insurance liability estimate.

Green Book principle 13 requires that "Management should use quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 13. Specifically:

- DHS failed to properly validate the underlying data used in the actuarial insurance liability estimate.

Effects:

The failure to adequately design, implement, and operate internal controls over the actuarially derived estimate increases the risk that misstatements to insurance liabilities on the Balance Sheet can occur without being prevented, or detected and corrected, timely.

Recommendations:

We recommend that DHS:

16. develop new policies, or improve and reinforce existing policies, procedures, and related internal controls, to ensure that:
    a. the underlying data to actuarially derived estimates is reviewed timely;
    b. information derived from the systems used in the operations of controls is determined to be complete and accurate;
    c. risks related to the methods, models, assumptions, and data elements are assessed each year to identify, plan, and respond to changes; and
    d. changes to the methods, models, assumptions, and data elements are sufficiently documented.

II.4

Independent Auditors' Report
Exhibit II – Significant Deficiencies

II-F Journal Entries

Background:

DHS uses numerous different information systems to process financial information. System limitations require DHS to record extensive journal entries to properly present their financial information.

Conditions:

DHS did not design control activities to achieve objectives and respond to risks as required by Green Book principle 10, *Design Control Activities*, or implement the entity's information systems and related control activities through policies as required by Green Book principles 11, *Design Activities for Information Systems*, and 12, *Implement Control Activities*. Specifically, DHS had:

- Recurring manual journal entries not analyzed for completeness at CBP and USCG;
- Manual journal entries not properly reviewed and approved at CBP;
- Manual journal entry amounts not validated with appropriate supporting documentation at USCG; and
- Prior year on-top adjustments affecting beginning balances not sufficiently reviewed for completeness and accuracy at the transaction level within the respective general ledger systems at USCG.

Causes:

These deficiencies are a result of the failure of entity level controls as follows:

Green Book principle 4 requires that "Management should demonstrate a commitment to recruit, develop, and retain competent individuals." DHS did not effectively implement and operate Green Book principle 4. Specifically:

- DHS did not provide timely training on requirements for supporting documentation to individuals with responsibilities to review journal entries.

Green Book principle 5 requires that "Management should evaluate performance and hold individuals accountable for their internal control responsibilities." DHS did not effectively implement and operate Green Book principle 5. Specifically:

- DHS did not enforce accountability of personnel responsible for the review of journal entries.

Green Book principle 7 requires that "Management should identify, analyze, and respond to risks related to achieving the defined objectives." DHS did not effectively implement and operate Green Book principle 7. Specifically:

- DHS did not identify and respond to the risk posed by not recording prior year on-top adjustments to the appropriate general ledger system.

Green Book principle 13 requires that "Management should use quality information to achieve the entity's objectives." DHS did not effectively implement and operate Green Book principle 13. Specifically:

- DHS did not identify the appropriate information requirements to support proposed journal entries.

Effects:

The failure to adequately design, implement, and operate internal controls over journal entries increases the risk that misstatements can occur without being prevented, or detected and corrected timely.

The failure to provide timely training increases the risk that unsupported or incorrect journal entries will be recorded.

Recommendations:

We recommend that DHS:

17. implement controls to ensure all necessary journal entries are completely recorded each period; and

Independent Auditors' Report
Exhibit II – Significant Deficiencies

18. develop new policies or improve and reinforce existing policies, procedures, and related internal controls, including providing training, to ensure journal entries are adequately researched, supported, and reviewed before and after recording in the general ledger.

Independent Auditors' Report
Exhibit III – Compliance and Other Matters

III-G *Federal Managers' Financial Integrity Act of 1982*

FMFIA requires agencies to establish effective internal control and information systems, and to continuously evaluate and assess the effectiveness of their internal control. DHS's implementation of OMB Circular No. A-123, *Management's Responsibility for Internal Control*, facilitates compliance with FMFIA. DHS has implemented a multi-year plan to achieve full assurance on internal control. However, the DHS *Secretary's Assurance Statement*, dated November 12, 2021, as presented in *Management's Discussion and Analysis* of DHS's FY 2021 *Agency Financial Report*, acknowledged the existence of control activities demonstrating material weaknesses, and therefore provided qualified assurance that internal control over financial reporting was operating effectively as of September 30, 2021. Management's findings were similar to the control deficiencies described in Exhibits I and II. DHS did not perform continuous monitoring and testing of both IT and financial controls for all significant areas.

While DHS progressed toward compliance with FMFIA, DHS did not fully establish effective systems, processes, policies, and testing procedures to ensure that internal controls were operating effectively throughout DHS. Deficiencies related to monitoring the internal control system are discussed in Exhibit I, Comments **I-A**, *Information Technology Controls and Information Systems*, and **I-B**, *Financial Reporting*.

Recommendation:

We recommend that DHS:

19. continue its corrective actions to address internal control deficiencies in order to ensure compliance with FMFIA, and implement the recommendations provided in Exhibits I and II.

Independent Auditors' Report
Exhibit III – Compliance and Other Matters

III-H *Federal Financial Management Improvement Act of 1996*

FFMIA Section 803(a) requires that agency Federal financial management systems comply with: (1) applicable Federal accounting standards; (2) Federal financial management system requirements; and (3) the USSGL at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability.

As of September 30, 2021, DHS's financial management systems did not comply substantially with Federal financial management system requirements, as described in Exhibit I, Comment **I-A**, *Information Technology Controls and Information Systems*, and compliance with Federal accounting standards, as described in Exhibit I, Comment **I-B**, *Financial Reporting*. The DHS Secretary stated in the *Secretary's Assurance Statement*, dated November 12, 2021, that DHS's financial management systems did not substantially conform to government-wide requirements mandated by FFMIA. DHS's remedial actions and related timeframes are also presented in Table 3 of *Management's Discussion and Analysis* in the FY 2021 *Agency Financial Report*.

Recommendation:

We recommend that DHS:

20. improve its financial management systems to ensure compliance with FFMIA, and implement the recommendations provided in Exhibit I.

III.2

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix A
Management Comments to the Draft Report

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

Homeland Security

November 12, 2021

Memorandum for: The Honorable Joseph V. Cuffari
Inspector General

FROM: Stacy Marcott
Acting Chief Financial Officer STACY A MARCOTT Digitally signed by STACY A MARCOTT Date: 2021.11.10 10:48:54 -05'00'

SUBJECT: Fiscal Year 2021 Financial Statement and Internal Control Over Financial Reporting Audit

Thank you for your audit report on the Department's Financial Statements and Internal Control over Financial Reporting for Fiscal Years (FY) 2021 and 2020. We agree with the Independent Public Accountant's conclusion. We are pleased to have earned an unmodified (clean) opinion on our consolidated financial statements for the ninth consecutive year.

During FY 2021, the Department faced significant challenges as we continued to develop and implement new assistance programs to address the unprecedented challenges of the COVID-19 pandemic and the associated economic uncertainty. During FY 2021, the Department received over $50 billion of additional funding provided by the American Rescue Plan Act and other relief legislation to support the national response to the pandemic. Despite these challenges, we continued to make progress on financial reporting and internal controls to ensure that we carry on the Department's mission while safeguarding the resources entrusted to the Department.

The Department has seen steady improvements in our financial management processes and controls throughout FY 2021 as noted in the auditors' report. Specifically, in FY 2021 DHS improved our Journal Entries processes so that it is no longer considered an area of material weakness. We are focused on improving information technology controls and have put in place an aggressive strategy to modernize our financial systems. In October of 2020, the Transportation Security Administration (TSA) successfully went live on our new Financial Systems Modernization Solution and the United States Coast Guard (USCG) is on schedule for migration to the same platform in late 2021.

The Department is committed to strengthening our controls and remediating remaining challenges using a multi-year, risk-based approach. I look forward to our continued partnership and collaboration with the Office of the Inspector General and the Independent Public Accountant in the years ahead.

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OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B
Report Distribution

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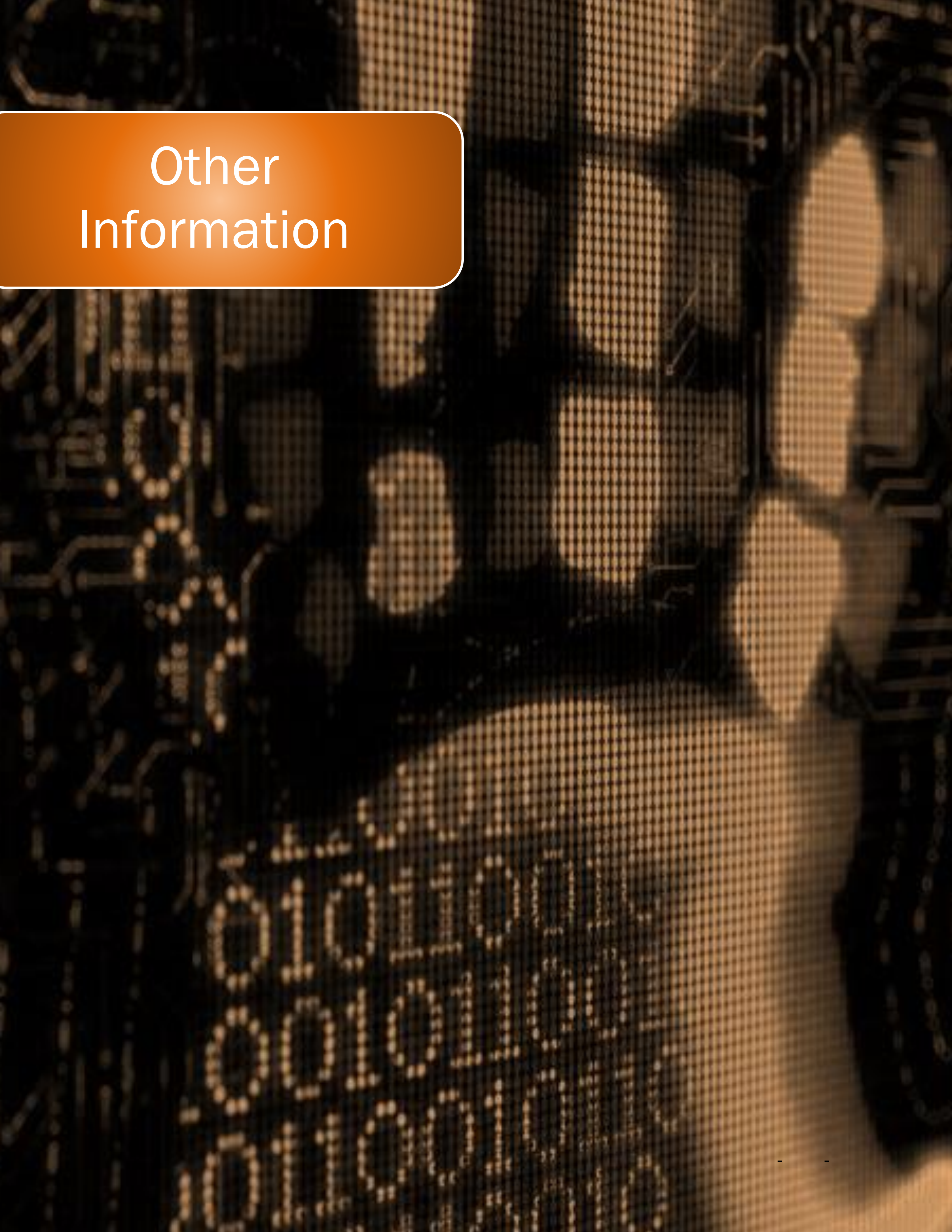
Other Information



The *Other Information* section contains information on Tax Burden/Tax Gap, Combined Schedule of Spending, Summary of Financial Statement Audit and Management Assurances, Payment Integrity, Fraud Reduction, Reduce the Footprint, and Other Key Regulatory Requirements. Also included in this section are the OIG's Summary of Major Management and Performance Challenges Facing the Department of Homeland Security and Management's Response.

Unaudited, see accompanying Auditors' Report.

Tax Burden/Tax Gap

Revenue Gap

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

Table 1: Entry Summary of Trade Compliance Measurement

(in millions)

	FY 2021 (Preliminary)	FY 2020 (Final)
Estimated Revenue Gap	$1,496.6	$1,076
Estimated Revenue Gap of all collectable revenue for year (%)	1.49%	1.19%
Estimated Over-Collection	$2,173.8	$1,994
Estimated Under-Collection	$3,643.4	$3,020
Estimated Overall Trade Compliance Rate (%)	98.96%	99.1%

The preliminary overall compliance rate for Fiscal Year (FY) 2021 is 98.96 percent. The final overall trade compliance rate and estimated revenue gap for FY 2021 will be issued in March 2022.

Combined Schedule of Spending

The Combined Schedule of Spending (SOS) presents an overview of how departments or agencies are spending money. The SOS presents combined budgetary resources and obligations incurred for the reporting entity. Obligations incurred reflect an agreement to either pay for goods and services, or provide financial assistance once agreed upon conditions are met. The data used to populate this schedule is the same underlying data used to populate the Statement of Budgetary Resources (SBR). Simplified terms are used to improve the public's understanding of the budgetary accounting terminology used in the SBR.

What Money is Available to Spend? This section presents resources that were available to spend as reported in the SBR.

- ***Total Resources*** refers to total budgetary resources as described in the SBR and represents amounts approved for spending by law.
- ***Amounts Not Agreed to be Spent*** represents amounts that the Department was approved to spend but did not take action to spend by the end of the fiscal year.
- ***Amounts Not Available to Spend*** represents amounts that the Department was not approved to spend during the current fiscal year.
- ***Total Amounts Agreed to be Spent*** represents amounts that the Department has made arrangements to pay for goods or services through contracts, orders, grants, or other legally binding agreements of the Federal Government. This line total agrees to the New Obligations and Upward Adjustments line on the SBR.

How was the Money Spent/Issued? This section presents services or items that were purchased, categorized by Component. Those Components that have a material impact on the SBR are presented separately. Other Components are summarized under Directorates and Other Components, which includes the Cybersecurity and Infrastructure Security Agency (CISA), the Countering Weapons of Mass Destruction (CWMD) Office, the Federal Law Enforcement Training Centers (FLETC), the Office of Intelligence and Analysis (I&A), the Office of Operations Coordination (OPS), the Management Directorate (MGMT), the Office of Inspector General (OIG), the Science and Technology Directorate (S&T), U.S. Citizenship and Immigration Services (USCIS), and the U.S. Secret Service (USSS).

For purposes of this schedule, the breakdown of "How Was the Money Spent/Issued" is based on the Office of Management and Budget (OMB) definitions for budget object class found in OMB Circular A-11.

- ***Personnel Compensation and Benefits*** represents compensation, including benefits directly related to duties performed for the government by federal civilian employees, military personnel, and non-federal personnel.
- ***Contractual Service and Supplies*** represents purchases of contractual services and supplies. It includes items like transportation of persons and things, rent, communications, utilities, printing and reproduction, advisory and assistance services, operation and maintenance of facilities, research and development, medical care, operation and maintenance of equipment, subsistence and support of persons, and purchase of supplies and materials.
- ***Acquisition of Assets*** represents the purchase of equipment, land, structures, investments, and loans.

- ***Grants, Subsidies, and Contributions*** represents, in general, funds to states, local governments, foreign governments, corporations, associations (domestic and international), and individuals for compliance with such programs allowed by law to distribute funds in this manner.
- ***Insurance, Refunds, and Other Spending*** represents benefits from insurance and federal retirement trust funds, interest, dividends, refunds, unvouchered or undistributed charges, and financial transfers.

Who did the Money Go To? This section identifies the recipient of the money, by federal and non-federal entities. Amounts in this section reflect "amounts agreed to be spent" and agree to the New Obligations and Upward Adjustments line on the SBR.

The Department encourages public feedback on the presentation of this schedule. Feedback may be sent via email to par@hq.dhs.gov.

Department of Homeland Security
Combined Schedule of Spending
For the Years Ended September 30, 2021 and 2020
(In Millions)

	2021	2020
What Money is Available to Spend?		
Total Resources	$ 198,989	$ 196,638
Less Amount Available but Not Agreed to be Spent	(52,144)	(33,291)
Less Amount Not Available to be Spent	(4,673)	(2,815)
TOTAL AMOUNT AGREED TO BE SPENT	**$ 142,172**	**$ 160,532**
How Was the Money Spent/Issued?		
U.S. Customs and Border Protection		
Personnel Compensation and Benefits	$ 11,908	$ 12,501
Contractual Services and Supplies	5,824	5,008
Acquisition of Assets	1,226	2,927
Grants, Subsidies, and Contributions	-	-
Insurance, Refunds, and Other Spending	7,314	7,480
Total Spending	**26,272**	**27,916**

(Continued)

Department of Homeland Security
Combined Schedule of Spending
For the Years Ended September 30, 2021 and 2020
(In Millions)

	2021	2020
U.S. Coast Guard		
Personnel Compensation and Benefits	10,407	6,427
Contractual Services and Supplies	2,359	4,846
Acquisition of Assets	597	1,218
Grants, Subsidies, and Contributions	181	116
Insurance, Refunds, and Other Spending	11	19
Total Spending	**13,555**	**12,626**
Federal Emergency Management Agency		
Personnel Compensation and Benefits	2,168	1,904
Contractual Services and Supplies	10,719	11,338
Acquisition of Assets	471	305
Grants, Subsidies, and Contributions	53,140	72,588
Insurance, Refunds, and Other Spending	2,715	1,599
Total Spending	**69,213**	**87,734**
U.S. Immigration and Customs Enforcement		
Personnel Compensation and Benefits	3,927	3,775
Contractual Services and Supplies	4,266	4,349
Acquisition of Assets	386	407
Grants, Subsidies, and Contributions	-	-
Insurance, Refunds, and Other Spending	42	48
Total Spending	**8,621**	**8,579**
Transportation Security Administration		
Personnel Compensation and Benefits	5,413	5,521
Contractual Services and Supplies	2,850	2,509
Acquisition of Assets	331	180
Grants, Subsidies, and Contributions	75	79
Insurance, Refunds, and Other Spending	2	3
Total Spending	**8,671**	**8,292**
Directorates and Other Components		
Personnel Compensation and Benefits	6,167	5,943
Contractual Services and Supplies	8,356	8,596
Acquisition of Assets	1,159	682
Grants, Subsidies, and Contributions	156	148
Insurance, Refunds, and Other Spending	2	16
Total Spending	**15,840**	**15,385**

(Continued)

Department of Homeland Security
Combined Schedule of Spending
For the Years Ended September 30, 2021 and 2020
(In Millions)

	2021	2020
Department Totals		
Personnel Compensation and Benefits	39,990	36,071
Contractual Services and Supplies	34,374	36,646
Acquisition of Assets	4,170	5,719
Grants, Subsidies, and Contributions	53,552	72,931
Insurance, Refunds, and Other Spending	10,086	9,165
TOTAL AMOUNT AGREED TO BE SPENT	**$ 142,172**	**$ 160,532**
Who Did the Money Go To?		
Non-Federal Governments, Individuals and Organizations	$ 118,290	$ 133,939
Federal Agencies	23,882	26,593
TOTAL AMOUNT AGREED TO BE SPENT	**$ 142,172**	**$ 160,532**

Summary of Financial Statement Audit and Management Assurances

The tables below provide a summary of the financial statement audit results and management assurances for FY 2021.

Table 2: Summary of Financial Statement Audit

Audit Opinion	Unmodified				
Restatement	No				
Areas of Material Weakness(es)	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Reporting	1	0	0	0	1
IT Controls & Information Systems	1	0	0	0	1
Total Areas of Material Weakness	**2**	0	0	0	**2**

Management has performed its evaluation, and the assurance is provided based upon the cumulative assessment work performed on Entity Level Controls, Financial Reporting, Budgetary Resource Management, Fund Balance with Treasury, Human Resources and Payroll Management, Payment Management, Insurance Management, Grants Management, Property Plant and Equipment, Revenue and Receivables, and Information Technology General Controls across the Department. DHS has remediation work to continue in FY 2022; however, no additional areas of material weakness were identified as a result of the assessment work performed in FY 2021. The following table indicates the areas of material weakness that were identified and where DHS will continue focused remediation efforts in FY 2022.

Table 3: Summary of Management Assurances

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2)						
Statement of Assurance	Modified					
Areas of Material Weakness(es)	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Financial Reporting	1	0	0	0	0	1
IT Controls & System Functionality	1	0	0	0	0	1
Total Areas of Material Weakness	**2**	**0**	**0**	**0**	**0**	**2**
EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA SECTION 2)						
Statement of Assurance(es)	Unmodified					
Areas of Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None Noted	0	0	0	0	0	0
Total Areas of Material Weakness	**0**	**0**	**0**	**0**	**0**	**0**
CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS (FMFIA § 4)						
Statement of Assurance	Federal Systems do not conform to financial management system requirements					
Non Conformance(s)	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Federal Financial Management Systems Requirements, including Financial Systems Security & Integrate Financial Management Systems.	1	0	0	0	0	1
Noncompliance with the U.S. Standard General Ledger	1	0	0	0	0	1
Federal Accounting Standards	1	0	0	0	0	1
Total Non-Conformances	**3**	**0**	**0**	**0**	**0**	**3**

COMPLIANCE WITH SECTION 803(a) OF THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)		
Requirements	DHS	Auditor
1. Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	Lack of compliance noted	Lack of compliance noted
3. USSGL at Transaction Level	Lack of compliance noted	Compliant

Payment Integrity

The Payment Integrity Information Act of 2019 (PIIA)[12], requires agencies to review and assess all programs and activities they administer and identify those determined to be susceptible to significant improper payments[13], estimate the annual amount of improper payments, and submit those estimates to Congress. In accordance with the Office of Management and Budget (OMB) Circular A-123, Appendix C[14], *Requirements for Payment Integrity Improvement,* Federal agencies are required to assess improper payments and report[15] annually on their efforts. In addition to this report, official detailed information on the Department's improper payments as well as information reported in prior years can be found on PaymentAccuracy.gov.

We remain strongly committed to ensuring our agency's transparency and accountability to the American taxpayer and achieving the most cost-effective strategy on the reduction of improper payments.

Supplemental Appropriations for Disaster Relief Requirements

In 2017, the nation faced a historic Atlantic hurricane season. The effects from consecutive hurricanes Harvey, Irma and Maria were widespread, causing long-lasting damage across the southern continental U.S. and surrounding islands, as well as Puerto Rico and the U.S. Virgin Islands.

- On August 25, 2017, Hurricane Harvey made landfall in Texas as a Category 4 storm. For several days, the storm hovered near the Houston metropolitan area and set a record for the most rainfall from a U.S. tropical cyclone. Of households impacted by Harvey, 80 percent did not have flood insurance.

- On September 6, 2017, Hurricane Irma became one of the strongest Atlantic hurricanes on record. The storm's center passed just north of the U.S. Virgin Islands and Puerto Rico and destroyed critical infrastructure on St. Thomas and St. John in the U.S. Virgin Island, as well as Puerto Rico and the Florida Keys. As Irma was the first major hurricane to make landfall in Florida since 2005, the public followed evacuation orders as the storm approached Florida, resulting in one of the largest sheltering missions in U.S. history.

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[12] Unless otherwise indicated, the term "PIIA" is used to reflect the current legislative language regarding improper payments as it formal revoked the Improper Payments Information Act of 2002 (IPIA), the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).

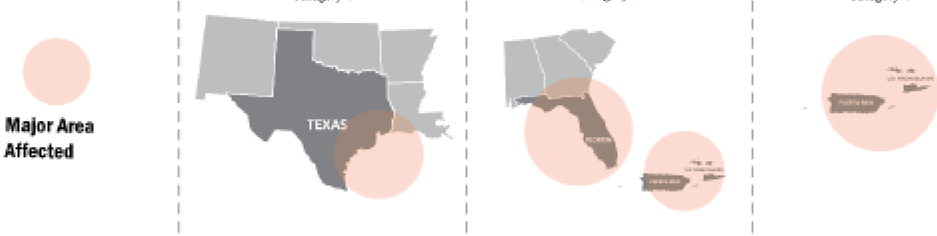
[13] A program with significant improper payments has both a 1.5 percent improper payment rate of program outlays and at least $10 million in improper payments of all program or activity payments made during the year or exceeds $100 million dollars in improper payments regardless of the improper payment rate percentage of total program outlays.

[14] In accordance with OMB guidance, agencies should use the OMB Circular A-123, Appendix C (M-18-20) until PIIA implementation guidance is formally published. On March 5, 2021, OMB released an updated Circular A-123, Appendix C (M-21-19) to formalize implantation expectations under PIIA effective for FY 2021 implementation.

[15] Due to rounding throughout all following figures and tables, amounts and percentages may reflect the exact total respective at the summary amounts and percentages reported. For precise data at the reportable program level, please refer to PaymentAccuracy.gov.

- On September 19, 2017, the Center of Hurricane Maria passed southeast of St. Croix, U.S. Virgin Islands as a Category 5 storm and made landfall in Puerto Rico as a Category 4 storm the next day. Hurricane Maria severely damaged or destroyed a significant portion of both territories' already fragile critical infrastructure. Maria left Puerto Rico's 3.7 million residents without electricity and the resulting response represents the longest sustained air mission of food and water delivery in FEMA history.

Figure 1: Harvey, Irma, and Maria Locations and Associated Impact

	Texas	Florida/Puerto Rico/ U.S. Virgin Islands	Puerto Rico/ U.S. Virgin Islands
	Harvey Category 4	**Irma** Category 5	**Maria** Category 4
Major Area Affected			
Sq miles	*Texas 268,597 mi²*	*Florida 65,755 mi²* *Puerto Rico 3,515 mi²* *USVI 133.73 mi²*	*Puerto Rico 3,515 mi²* *USVI 133.73 mi²*
State & Territory population	**25.2 Million**	**22.7 Million**	**3.8 Million**
% of population affected	**30%**	**85%**	**100%**

Supplemental appropriations were designated as an emergency requirement in the Supplemental Appropriations for Disaster Relief Requirements, 2017 (P.L. 115-56, the Additional Supplemental Appropriations for Disaster Relief Requirements Act of 201 7 (P.L. 115-72), and the Further Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2018 (P.L. 115-123) were issued to specific agencies to provide the resources needed to recover and rebuild following recent hurricanes and other applicable natural disasters. Within these supplemental appropriations, DHS received a total supplemental appropriation amount of $50.72 billion[16]. The breakout of DHS Components receiving this supplemental funding is documented in the table below.

[16] Due to rounding, amounts may not reflect precise appropriated values.

Table 4: DHS Breakout of Supplemental Appropriation Funding Received

Public Law	Component	Program	Period of Availability (FY)	Appropriated Value ($M)	Transfer-In Value ($M)	Transfer-Out Value ($M)	Value for Program Use ($M)
115-56	Federal Emergency Management Agency	Disaster Relief Fund	No-Year	$7,400.00	$0.00	$0.00	$7,400.00
115-72		Disaster Relief Fund	No-Year	$18,670.00	$0.00	$10.00	$18,660.00
115-123		Operations and Support	18-19	$58.80	$0.00	$0.00	$58.80
		Procurement, Construction, and Improvements	18-20	$1.20	$0.00	$0.00	$1.20
		Disaster Relief Fund	No-Year	$23,500.00	$0.00	$0.00	$23,500.00
115-123	Federal Law Enforcement Training Center	Operations and Support	18-19	$5.37	$0.00	$0.00	$5.37
		Procurement, Construction, and Improvements	18-22	$5.00	$0.00	$0.00	$5.00
115-72	Office of the Inspector General	Operations and Support	No-Year	$0.00	$10.00	$0.00	$10.00
115-123		Operations and Support	18-20	$25.00	$0.00	$0.00	$25.00
115-123	Transportation and Security Administration	Operations and Support	18-19	$10.32	$0.00	$0.00	$10.32
115-123	U.S. Customs and Border Protection	Operations and Support	18-19	$104.49	$0.00	$0.00	$104.49
		Procurement, Construction, and Improvements	18-22	$45.00	$0.00	$0.00	$45.00
115-123	U.S. Immigration and Customs Enforcement	Operations and Support	18-19	$30.91	$0.00	$0.00	$30.91
		Procurement, Construction, and Improvements	18-22	$33.05	$0.00	$0.00	$33.05
115-123	United States Coast Guard	Operating Expenses	18-19	$112.14	$0.00	$0.00	$112.14
		Environmental Compliance and Restoration	18-22	$4.04	$0.00	$0.00	$4.04
		Acquisition, Construction, and Improvements	18-22	$718.92	$0.00	$0.00	$718.92
						TOTAL:	$50,724.24

P.L. 115-123 requires any agency receiving funds under P.L. 115-123 as well as P.L. 115-72 and P.L. 115-56 to consider any programs expending more than $10 million of funds in any one fiscal year highly susceptible to improper payments for the purposes of the PIIA. Once disaster supplemental funded programs met or exceeded the $10M threshold in payments applicable for PIIA review, the program was deemed susceptible to significant improper payments and thus applicable for statistical sampling and reporting.

Due to the burden of testing and reporting for the programs related solely to disaster supplemental appropriation disbursements, DHS is reporting statistical testing results two years in arrears. Therefore, FY 2019 disbursement testing and results are reported in the 2021 results noted below for the following programs:

- CBP Operations & Support - Disaster Supplemental Funds
- FEMA Commercial Bill of Lading - Disaster Supplemental Funds
- FEMA Disaster Case Management - Disaster Supplemental Funds
- FEMA Disaster Relief Fund - Individuals and Households Program - Disaster Supplemental Funds
- FEMA Payroll - Disaster Supplemental Funds
- FEMA Public Assistance - Disaster Supplemental Funds
- FEMA Travel - Disaster Supplemental Funds
- FEMA Urban Search & Rescue - Disaster Supplemental Funds
- OIG Audits, Inspections, & Investigations - Disaster Supplemental Funds
- USCG Aviation Logistics Center - Disaster Supplemental Funds

- USCG Operations & Support [17] - Disaster Supplemental Funds
- USCG Procurement, Construction, & Improvement - Disaster Supplemental Funds

1. Payment Reporting

The OMB Circular A-123, Appendix C provides the definition for an improper payment and serves as applicable guidance to agencies for compliance with PIIA. Following the updated OMB Circular A-123, Appendix C guidance, and accounting for the additional requirements within the Supplemental Appropriations for Disaster Relief Requirements, the Department has identified the following twelve programs or activities susceptible to significant improper payments and is able to provide results and reporting this year[18].

In accordance with OMB Circular A-123, Appendix C[19], the following terminology is used for DHS reporting:

> *Improper Payment: A payment that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. The term improper payment includes: any payment to an ineligible recipient; any payment for an ineligible good or service; any duplicate payment; any payment that was not authorized by law; and any payment that does not account for credit for applicable discounts.*
>
> *Overpayment: A payment in excess of what is due. When an overpayment occurs, the improper amount is the difference between the amount due and the amount of what was actually paid. Overpayments are monetary loss[20] type improper payments and in theory, should/could be recovered.*
>
> *Proper Payment: A payment made to the right recipient for the right amount that has met all program specific legally applicable requirements for the payment.*
>
> *Technically Improper Payment: A payment made to an otherwise qualified recipient for the right amount, but the payment failed to meet all regulatory and/or statutory requirements. A technically improper payment is a non-monetary loss type improper payment.*
>
> *Underpayment: A payment that is less that what is due. When an underpayment occurs, the improper payment amount is the difference between the amount dye and the amount which was actually paid. An underpayment is a non-monetary loss type improper payment.*

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[17] Previously titled Coast Guard Operating Expenses

[18] Due to the burden of testing and reporting for the twelve programs related solely to disaster supplemental appropriation disbursements, DHS is reporting statistical testing results two years in arrears for these programs. For additional information, please refer to the additional detail around the Supplemental Appropriations for Disaster Relief Requirements supplied later in this section.

[19] For additional terminology and definitions please refer to OMB Circular A-123, Appendix C located at: https://www.whitehouse.gov/wp-content/uploads/2021/03/M-21-19.pdf

[20] For confirmed overpayments that resulted in monetary loss to the government, DHS Components follow established recovery and collection processes and procedures in order to recoup funds, as possible.

<u>Unknown Payment</u>: A payment that could be either proper or improper, but the agency is unable to discern whether the payment was proper or improper as a result of insufficient of lack of documentation.

Please refer to PaymentAccuracy.gov for additional detail regarding any program's reporting, to include, but not limited to, the following: root causes and categorization themes of reported improper payments and unknown payments, corrective actions taken and planned, and anticipated future year outlays and reduction targets.

<u>Disaster Supplemental[21] DHS Programs for Reporting</u>

<u>CBP Operations & Support (O&S) – Disaster Supplemental Funding Program</u>

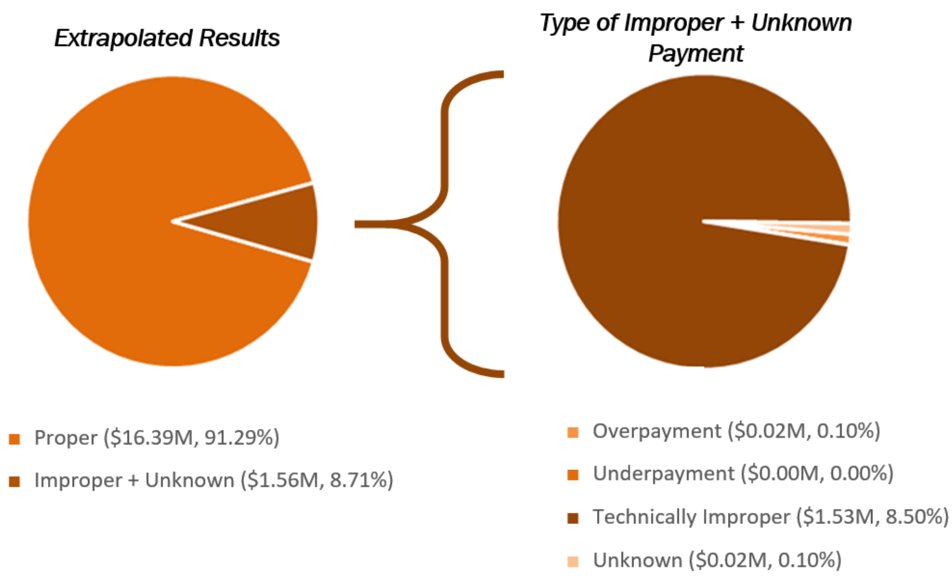
During the Hurricane Harvey, Irma, and Maria disasters, CBP's highest priorities were to promote lifesaving and life-sustaining activities, the safe evacuation of people who are leaving the impacted area, the maintenance of public order, the prevention of the loss of property to the extent possible, and the speedy recovery of the region. At the request of FEMA, local and state authorities, DHS law enforcement personnel would be in the affected areas to conduct search and rescue, air traffic de-confliction and public safety missions.

CBP was also responsible for providing for the safety and security of CBP employees and associated family members. As such, CBP actively evacuated employees as needed, from the paths of the hurricanes.

For the testing conducted in 2021, CBP's assessment was focused on the associated FY 2019 disaster supplemental funding disbursements of over $17 million applicable for review under PIIA. The CBP O&S - Disaster Supplemental Funds program reported an 8.71 percent estimated payment error rate in 2021. Please refer to the figure below for additional detail regarding the breakouts and associated error categorization.

[21] Program funding solely consisting of funding received through the Supplemental Appropriations for Disaster Relief Requirements, 2017 (P.L. 115-56, the Additional Supplemental Appropriations for Disaster Relief Requirements Act of 201 7 (P.L. 115-72), and the Further Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2018 (P.L. 115-123)

Figure 2: CBP O&S - Disaster Supplemental Funds Reported Results



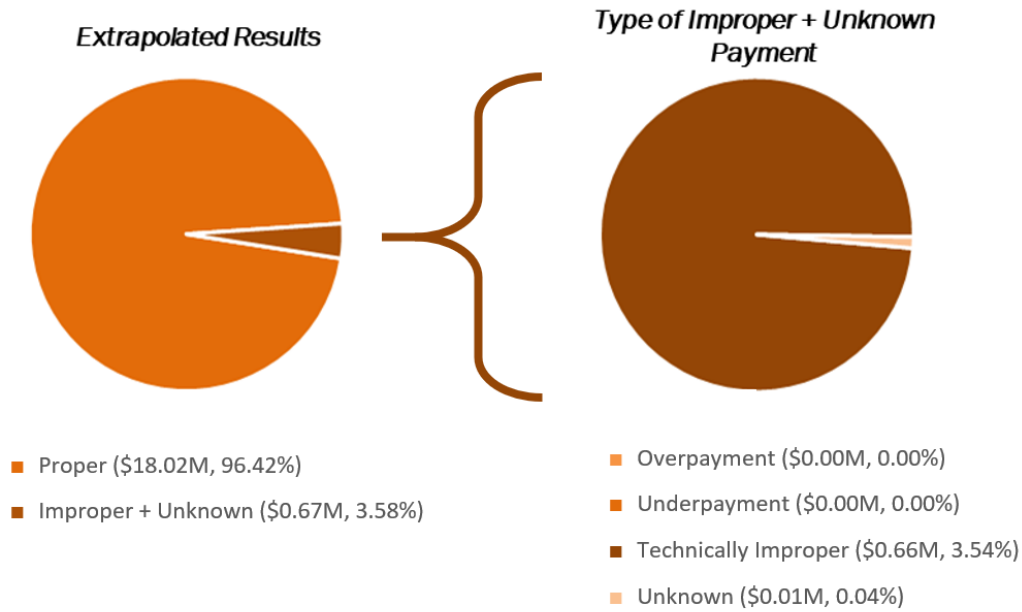
<u>FEMA Commercial Bill of Lading (CboL) – Disaster Supplemental Funds Program</u>

The FEMA Tender of Service Program uses bills of lading to acquire freight transportation services. The bills of lading, sometimes referred to as a commercial bill of lading, establishes the terms of contract between a shipper (i.e., FEMA or other authorized federal agencies) and a Tender of Service Program and serves as a receipt of goods, a contract of carriage, and documentary evidence of title.

FEMA uses an automated, web-based third-party payment system to streamline the audit, approval and payment processes associated with transportation-related expenses.

For the testing conducted in 2021, FEMA's assessment was focused on the associated FY 2019 disaster supplemental funding disbursements of over $18 million applicable for review under PIIA. The FEMA CBoL – Disaster Supplemental Funds program reported a 3.58 percent estimated payment error rate in 2021. Please refer to the figure below for additional detail regarding the breakouts and associated error categorization.

Figure 3: FEMA CBoL – Disaster Supplemental Funds Reported Results



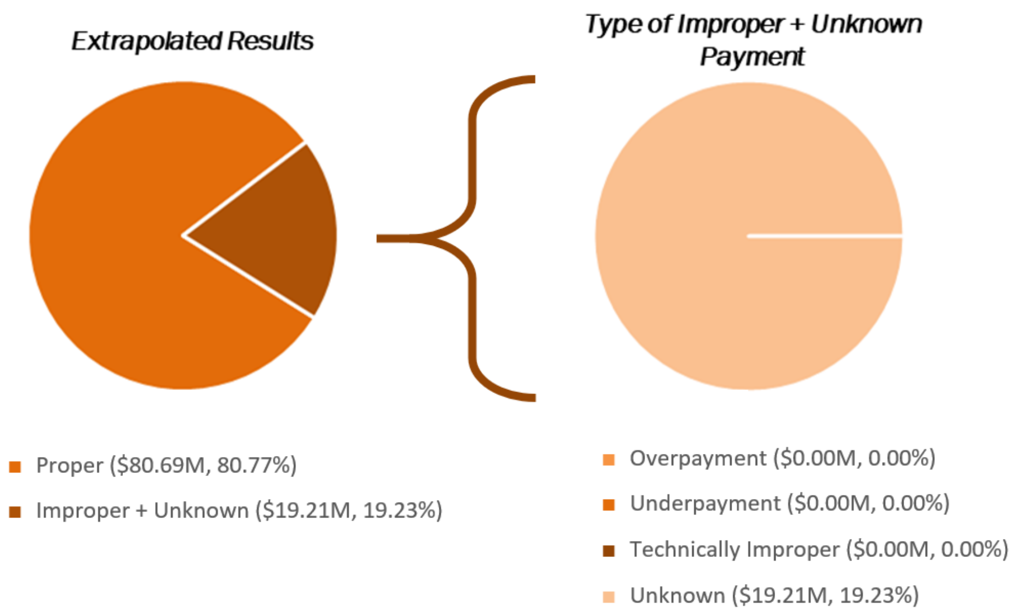
<u>**FEMA Disaster Case Management (DCM) – Disaster Supplemental Funds Program**</u>

Disaster Case Management involves partnerships between a case manager and a disaster survivor. The intention of this program is to assess and address a survivor's unmet needs through a disaster recovery plan. This disaster recovery plan includes resources, decision-making priorities, providing guidance, and tools to assist disaster survivors.

While Section 426 of the Stafford Act authorizes FEMA to "provide case management services, including financial assistance, to State or local government agencies or qualified private organizations to provide such services to victims of major disasters to identify and address unmet needs," the Disaster Case Management program is administered in partnership with the U.S. Department of Health and Human Services. This partnership provides the client with a single person to facilitate access to a broad range of resources. The process involves assessing the client's needs caused by and related to the disaster, developing a goal-oriented plan outlining the steps necessary for recovery; organizing and coordinating resources that match the client's needs; monitoring progress; and, when necessary, advocating on behalf of the client.

For the testing conducted in 2021, FEMA's assessment was focused on the associated FY 2019 disaster supplemental funding disbursements of over $99 million applicable for review under PIIA. The FEMA DCM – Disaster Supplemental Funds program reported a 19.23 percent estimated payment error rate in 2021. Please refer to the figure below for additional detail regarding the breakouts and associated error categorization.

Figure 4: FEMA DCM – Disaster Supplemental Funds Reported Results



Based on 2021 program reporting, the FEMA DCM – Disaster Supplemental Funds program estimated error rate can be attributed to deficiencies primarily related to Region 6 internal processes and documentation. A corrective action plan has been established with all substantial milestones and corrective actions planned to be fully completed by May 2022 and further expansion and support by an electronic platform planned to be implemented by December 2023.

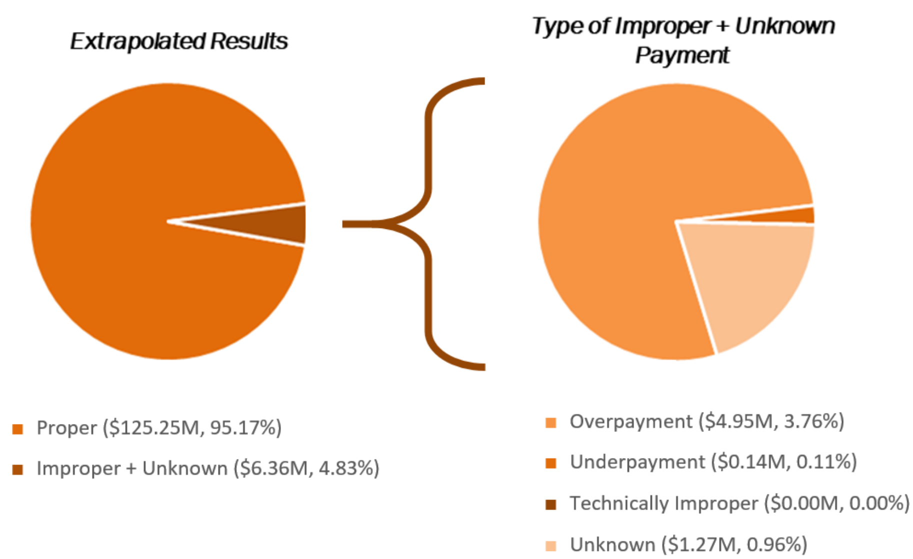
FEMA Disaster Relief Fund (DRF) – Individuals and Households Program (IHP) – Disaster Supplemental Funds Program

FEMA's DRF IHP provides financial and direct services to eligible individuals and households affected by a disaster, who have uninsured or under-insured necessary expenses and serious needs. FEMA determines the appropriate types of Housing Assistance for which an individual or household may be eligible based on disaster-caused loss, access to life-sustaining services, cost-effectiveness, and other factors. Individuals and households may receive more than one type of Housing Assistance, including a combination of financial assistance and direct services for disaster-caused damage to a disaster survivor's primary residence.

Applicants may also receive financial assistance for other disaster-caused necessary expenses and serious needs. The types of other needs assistance are divided into two categories of assistance that are either dependent or non-dependent on the applicant's ability to secure a U.S. Small Business Administration (SBA) disaster loan. The SBA provides low-interest, long-term loans to help eligible applicants with transportation losses, moving and storage expenses, as well as repair/replacement funds for real and personal property damage caused by the disaster.

For the testing conducted in 2021, FEMA's assessment was focused on the associated FY 2019 disaster supplemental funding disbursements of over $131 million applicable for review under PIIA. The FEMA DRF IHP – Disaster Supplemental Funds program reported a 4.83 percent estimated payment error rate in 2021. Please refer to the figure below for additional detail regarding the breakouts and associated error categorization.

Figure 5: FEMA DRF IHP – Disaster Supplemental Funds Reported Results



FEMA Payroll – Disaster Supplemental Funds Program

The federal disaster workforce is designed to scale up or down depending on the timing and magnitude of disasters, and primarily includes the following categories of employees:

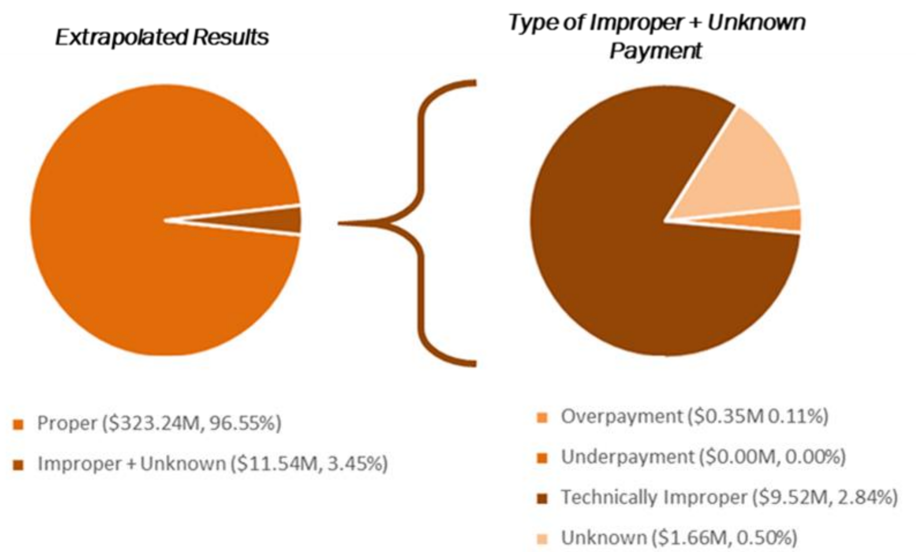
- **Title 5** – Employees that make up FEMA's day-to-day workforce and are responsible for administering the agency's ongoing program activities. During disasters, these employees can be deployed as needed.
- **Stafford Act** – Stafford Act employees provide support for disaster-related activities and augment FEMA's disaster workforce. Stafford Act employees include on call and recovery staff who are temporary employees and can be deployed to fulfill any role specifically related to the incident for which they are hired and qualified. In addition, reservists can be utilized. These reservists work on an intermittent basis and are deployed as needed to fulfill incident management roles.
- **Surge Capacity Force** – The Surge Capacity Force supplements FEMA's disaster workforce in a major disaster and consists of volunteers who are employees of DHS components, such as the Transportation Security Administration and U.S. Secret Service, as well as employees of other federal agencies, as authorized by the Post-Katrina Act[22].

[22] 266 U.S.C. § 711(b)

- **FEMA Corps** – FEMA Corps is a team-based national service program operated by AmeriCorps in partnership with FEMA. Members are not FEMA employees, but are deployed to augment FEMA's workforce for disaster readiness, preparedness, response, and recovery work under the supervision of FEMA staff.

For the testing conducted in 2021, FEMA's assessment was focused on the associated FY 2019 disaster supplemental funding disbursements of over $334 million applicable for review under PIIA. The FEMA Payroll – Disaster Supplemental Funds program reported a 3.45 percent estimated payment error rate in 2021. Please refer to the figure below for additional detail regarding the breakouts and associated error categorization.

Figure 6: FEMA Payroll – Disaster Supplemental Funds Reported Results

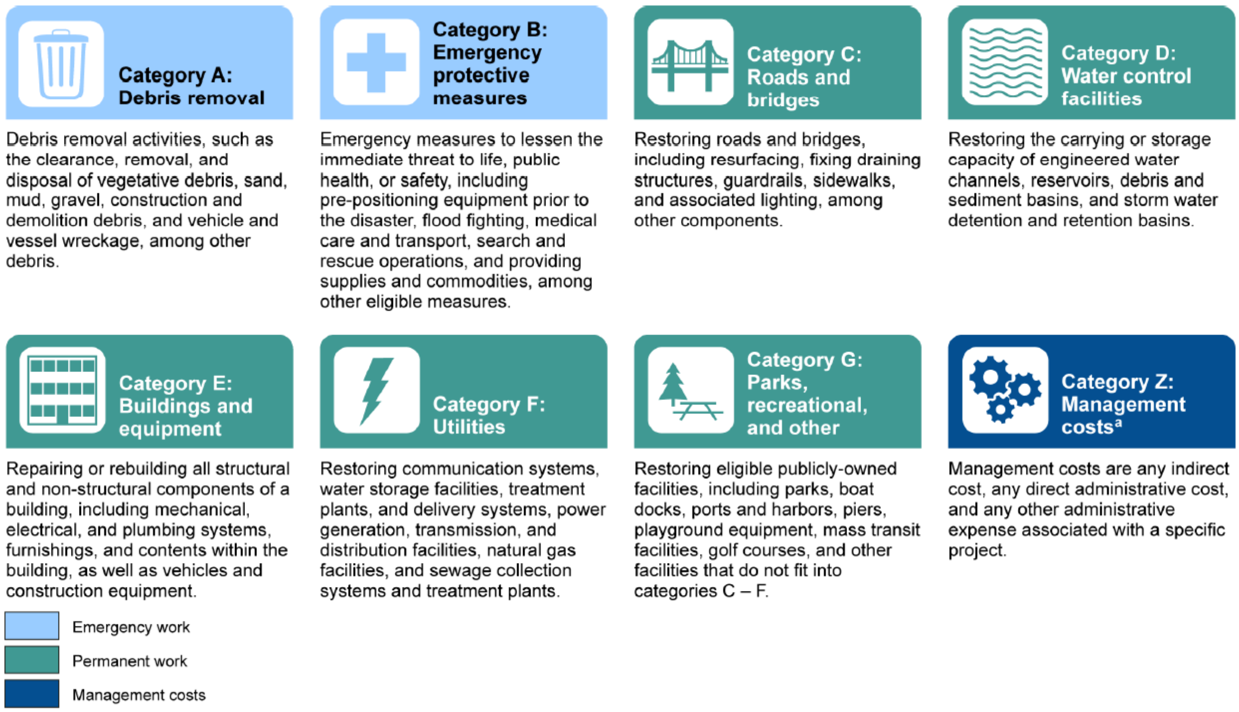


<u>**FEMA Public Assistance (PA) – Disaster Supplemental Funds Program**</u>

The Robert T. Stafford Disaster Relief and Emergency Assistance Act, as Amended (Stafford Act), Title 42 of the United States Code (U.S.C.) § 5121 et seq., authorizes the President to provide federal assistance when the magnitude of an incident or threatened incident exceeds the affected state, territorial, Indian tribal, and local government capabilities to respond or recover.

The purpose of the PA grant program is to support communities' recovery from major disasters by providing them with grant assistance for debris removal, life-saving emergency protective measures, and restoring public infrastructure. Local governments, states, tribes, territories, and certain private nonprofit organizations are eligible to apply.

Figure 7: FEMA PA Program Categories of Work[23]



The FEMA PA Grant Program relies on Regional Offices to manage, operate, and maintain program activities and operations. For the breakout of FEMA Regions, please refer to the figure below.

[23] Source: Federal Emergency Management Agency. | GAO-20-221

Figure 8: Map of FEMA regions

Public Assistance is FEMA's largest grant program and provides emergency assistance to save lives and protect property and assists communities with repairing public infrastructure affected by federally declared incidents.

Since Hurricanes Harvey, Irma, and Maria in 2017, FEMA has continued working with impacted areas, to include Puerto Rico and the U.S. Virgin Islands, to identify possible opportunities to prevent similar damage in the future [24]. Section 20601 of the Bipartisan Budget Act of 2018 authorized FEMA, when using the alternative procedures, to provide assistance to fund the replacement or restoration of disaster-damaged infrastructure that provides critical services—such as medical and educational facilities—to an industry standard without regard to pre-disaster condition. Further, the Additional Supplemental Appropriations for Disaster Relief Act of 2019 (Supplemental Relief Act), which was signed into law on June 6, 2019, provides additional direction to FEMA in the implementation of section 20601.

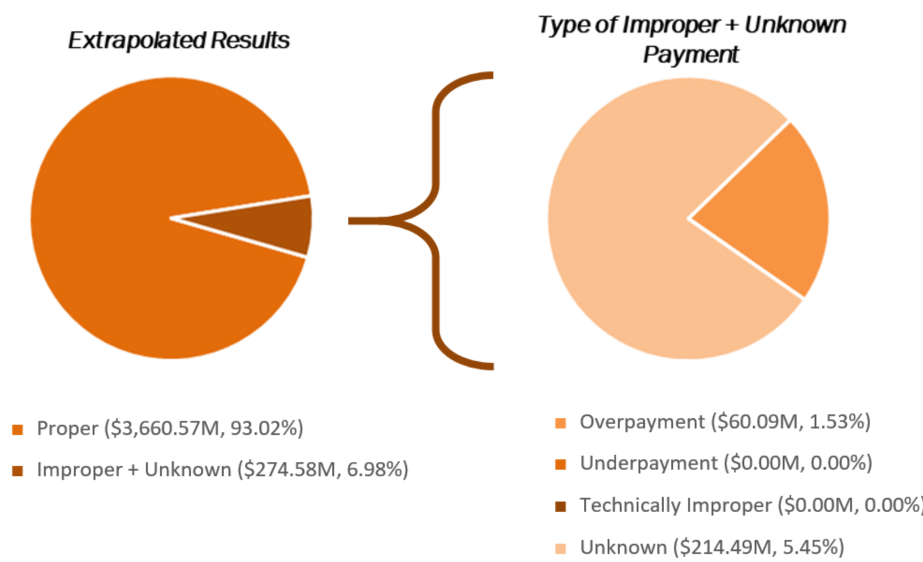
Based on 2020 program reporting, the FEMA PA – Disaster Supplemental Funds program had identified deficiencies primarily related to payment deficiencies noted in Puerto Rico and the U.S. Virgin Islands. As of April 2019, all payment integrity corrective action milestones specific to FEMA Public Assistance provided to Puerto Rico as a result of the 2017 Harvey, Irma, and Maria hurricanes are complete. In addition, as of February 2021, FEMA completed corrective actions specific to FEMA Public Assistance that was provided to the U.S. Virgin Islands as a result of the 2017 Harvey, Irma, and Maria hurricanes. For example, the U.S. Virgin Islands issued an Internal Control Plan in September 2020 that addresses grants management, cash management compliance and sub-recipient

[24] Efforts primarily align to the FEMA Hazard Mitigation Grant Program.

monitoring processes. In response, FEMA has lifted the imposed Manual Drawdown restrictions for Public Assistance provided to the U.S. Virgin Islands, effective February 1, 2021.

For the testing conducted in 2021, FEMA's assessment was focused on the associated FY 2019 disaster supplemental funding disbursements of over $3.9 billion applicable for review under PIIA. The FEMA PA – Disaster Supplemental Funds program reported a 6.98 percent estimated payment error rate in 2021, primarily due to the elevated rates noted for Puerto Rico and the U.S. Virgin Islands. Please refer to the figure below for additional detail regarding the breakouts and associated error categorization.

Figure 9: FEMA PA – Disaster Supplemental Funds Reported Results



While Puerto Rico and the U.S. Virgin Islands remain as the significant contributors to the estimated error rate and extrapolated amount for the program, both localities have seen improvements over prior year reporting. Despite the FEMA PA – DSF program reporting an approximate 125 percent increase in annual disbursement activity in FY 2019, the program decreased its estimated error rate and amount by over 15 percent and over $425 million. In addition, Puerto Rico and the U.S. Virgin Islands both decreased their respective contribution percentages to the overall sampling and extrapolated error for the program.

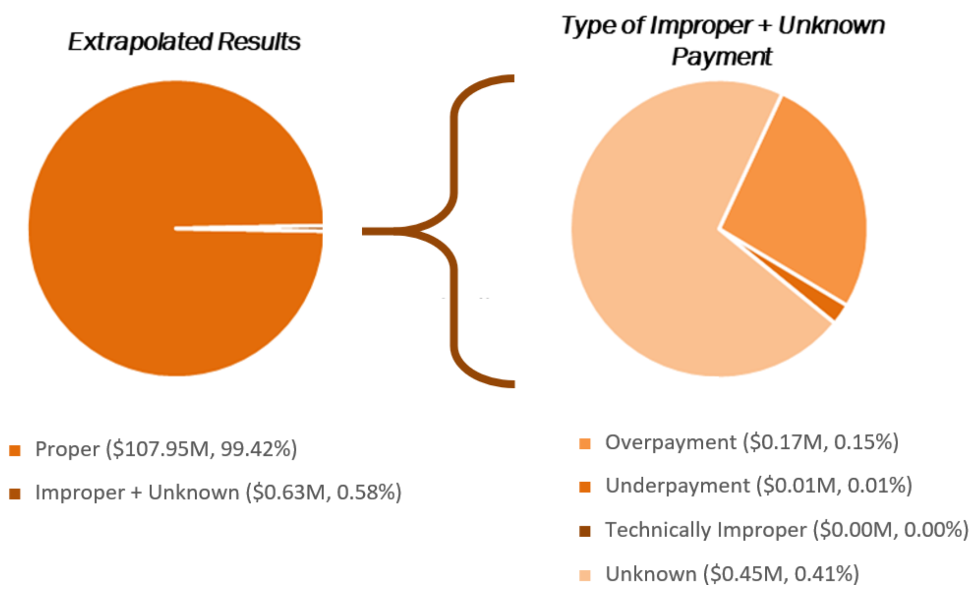
In accordance with established processes and procedures, FEMA will move forward with efforts, to include appeal rights and a final determination on debt recoupment amounts, to recover known improper payments as well as payments that the locality is unable to support with adequate documentation.

FEMA Travel – Disaster Supplemental Funds Program

Under typical disaster operations, responders are moved to the disaster response area via commercial travel options or on roadways from nearby states, as possible. However, limitations on air travel due to capacity constraints and power outages can result in the requirement to coordinate and mobilize agency partners to provide chartered transportation until commercial travel options can be fully resumed.

For the testing conducted in 2021, FEMA's assessment was focused on the associated FY 2019 disaster supplemental funding disbursements of over $108 million applicable for review under PIIA. The FEMA Travel – Disaster Supplemental Funds program reported a 0.58 percent estimated payment error rate in 2021. Please refer to the figure below for additional detail regarding the breakouts and associated error categorization.

Figure 10: FEMA Travel – Disaster Supplemental Funds Reported Results



FEMA Urban Search & Rescue (US&R) – Disaster Supplemental Funds Program

The National US&R Response System, established under the authority of the Federal Emergency Management Agency in 1989, is a framework for organizing federal, state, and local partner emergency response teams as integrated federal disaster response task forces. US&R task forces can be deployed by FEMA to a disaster area to provide assistance in structural collapse rescue, or they may be pre-positioned when a major disaster threatens a community. Each US&R task force is composed of members specializing in search, rescue, medicine, hazardous materials, logistics and planning, including technical specialists such as physicians, structural engineers, and canine search teams.

Disaster response is locally executed, state/territory managed and federally supported. Local fire departments, emergency management, and local and state law enforcement are the first to arrive at the scene and begin rescue. As the Disaster Supplemental Funding was provided to assist in Hurricane Harvey, Irma, and Maria response and assistance, US&R response was largely focused in the locations of Texas, Florida, Puerto Rico, and the U.S. Virgin Islands.

Based on 2020 program reporting, the FEMA US&R – Disaster Supplemental Funds program had identified deficiencies primarily related to 1) documentation collection, 2) labor rate recognition, and 3) labor rate review and validation processes. As a result, the program established a corrective action plan related to the funding received related to the 2017 Harvey, Irma, and Maria hurricanes to mitigate the risk of improper payments and to enhance existing processes. As of September 2021[25] , completed corrective actions include, but are not limited to, the following:

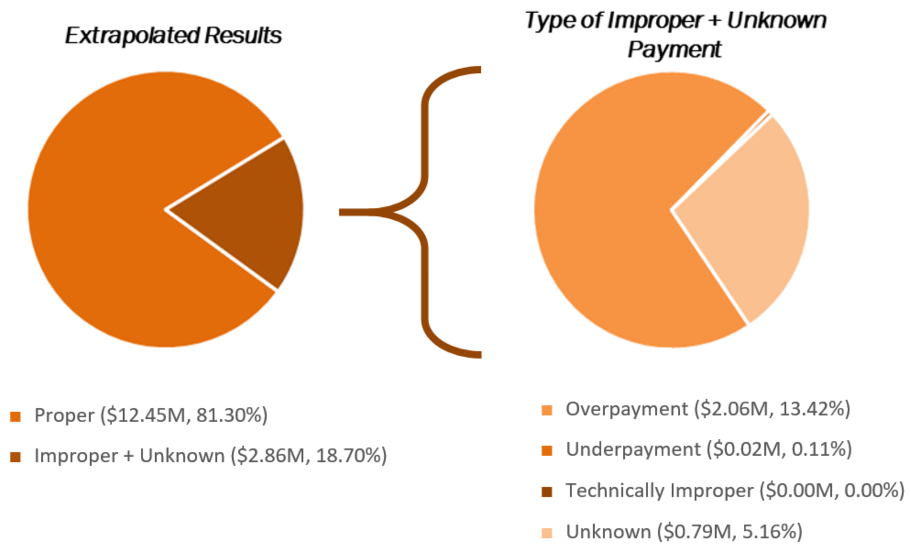
- Provide additional definition regarding documentation requirements for a reimbursement package;
- Hold recurring meetings with applicable Task Forces; and
- Provide internal training on an as needed basis.

In addition, FEMA US&R remaining milestones aim to improve forms, templates, and instructions; and develop and distribute associated Directive and Manuals to ensure that enhanced processes are sufficiently designed, documented, and implemented.

For the testing conducted in 2021, FEMA's assessment was focused on the associated FY 2019 disaster supplemental funding disbursements of over $15 million applicable for review under PIIA. The FEMA US&R – Disaster Supplemental Funds program reported an 18.70 percent estimated payment error rate in 2021. Please refer to the figure below for additional detail regarding the breakouts and associated error categorization.

[25] Note that as the FEMA US&R – Disaster Supplemental Funds program is performing payment integrity testing and reporting two years in arrears due to overall agency burden, impacts of the completed corrective actions are not anticipated to have a reduction on reported error rates for the program until 2022 reporting, at the earliest.

Figure 11: FEMA US&R – Disaster Supplemental Funds Reported Results

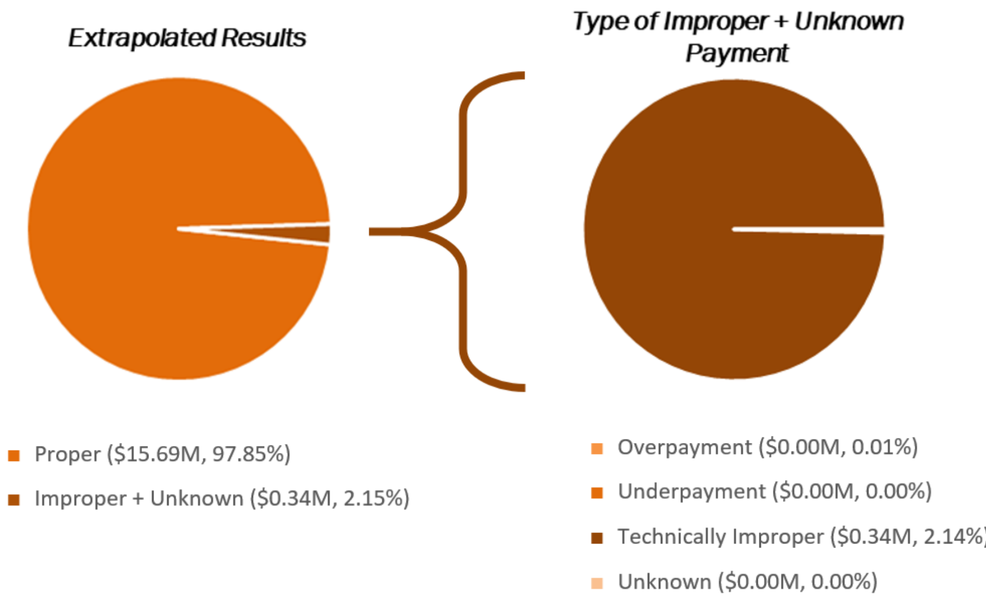


OIG Audits, Inspections, & Investigations – Disaster Supplemental Funds Program

As part of the Disaster Supplemental Funding received by DHS, funding was provided to the OIG for conducts audits, inspections, and investigations related to the FEMA disaster assistance programs under the Stafford Act, FEMA disaster related programs, and other DHS programs that were provided Disaster Supplemental Funding.

For the testing conducted in 2021, OIG's assessment was focused on the associated FY 2019 disaster supplemental funding disbursements of over $16 million applicable for review under PIIA. The OIG Audits, Inspections, & Investigations – Disaster Supplemental Funds program reported a 2.15 percent estimated payment error rate in 2021. Please refer to the figure below for additional detail regarding the breakouts and associated error categorization.

Figure 12: OIG Audits, Inspections, & Investigations – Disaster Supplemental Funds Reported Results



USCG Aviation Logistics Center (ALC) – Disaster Supplemental Funds Program

The Coast Guard ALC provides centralized logistics support for all Coast Guard aviation missions. ALC's mission supports 26 Coast Guard aviation units that operate approximately 200 aircraft with air stations located throughout the continental United States, Alaska, Hawaii, and Puerto Rico. In addition, ALC supports deployed aircraft worldwide. USCG receipt of Disaster Supplemental Funding addresses operational response costs as well as reconstitution costs for damage to Coast Guard aviation assets and equipment due to Hurricanes Harvey, Irma, and Maria.

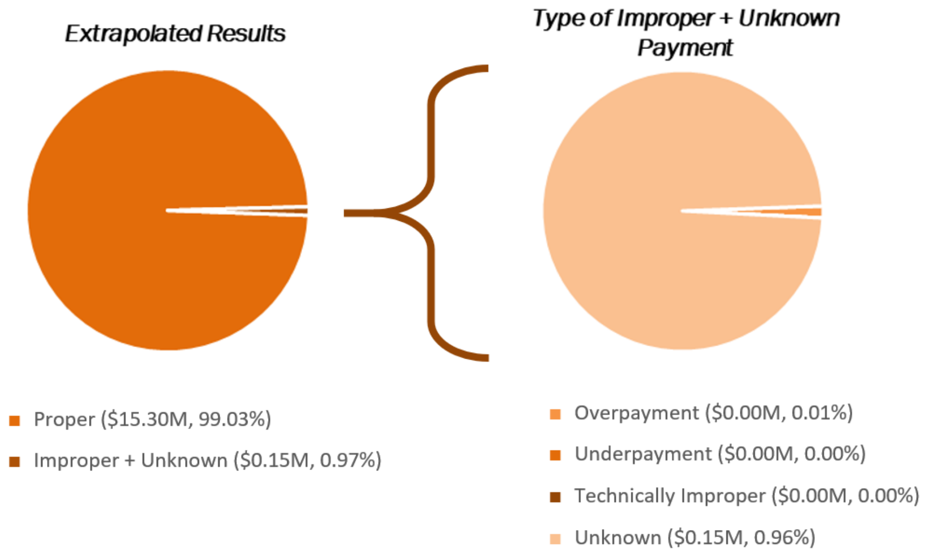
For the testing conducted in 2021, USCG's assessment was focused on the associated FY 2019 disaster supplemental funding disbursements of over $16 million applicable for review under PIIA. The USCG Aviation Logistics Center – Disaster Supplemental Funds program no improper or unknown payments identified in 2021.

USCG Operations & Support – Disaster Supplemental Funds Program

As the Nation's maritime first responder, the Coast Guard has unique capabilities, capacity, and authorities that allow it to play a critical role in disaster response. For each of the Hurricanes noted and all-natural disasters along our coastline, Coast Guard crews are typically the first federal responders to enter an impacted area, right alongside the state, local, tribal, and territorial responders, to conduct rescues and assess damage. In addition to search and rescue operations, the Coast Guard flows forces into the impacted regions to restore ports and waterways, respond to pollution, provide security and additional law enforcement capability where necessary, and protect offshore petrochemical platforms.

For the testing conducted in 2021, USCG's assessment was focused on the associated FY 2019 disaster supplemental funding disbursements of over $15 million applicable for review under PIIA. The USCG O&S – Disaster Supplemental Funds program reported a 0.97 percent estimated payment error rate in 2021. Please refer to the figure below for additional detail regarding the breakouts and associated error categorization.

Figure 13: USCG O&S – Disaster Supplemental Funds Reported Results

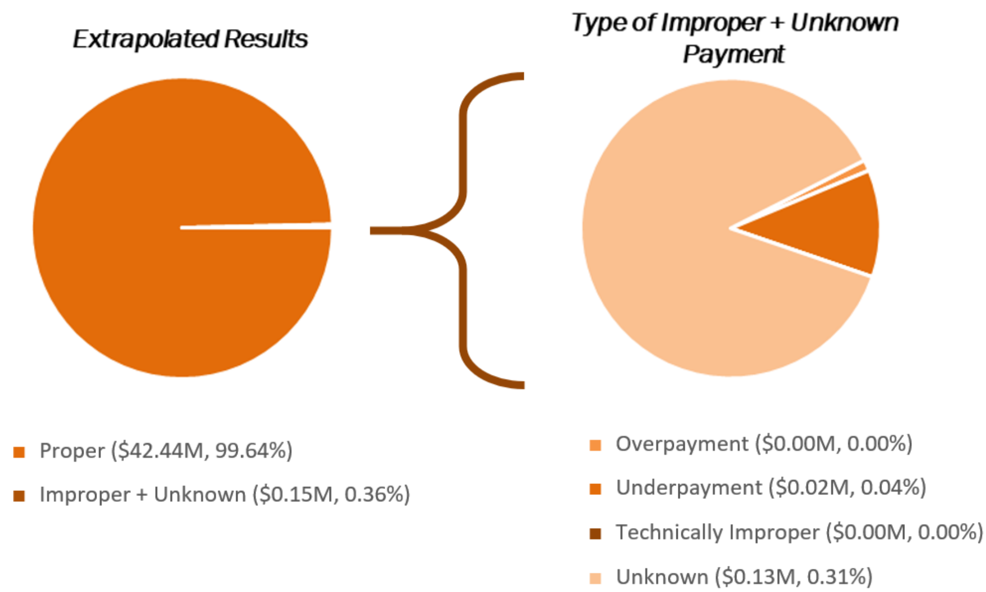


<u>**USCG Procurement, Construction, & Improvement (PC&I)– Disaster Supplemental Funds Program**</u>

Due to the expanse and extent of damage tied to Hurricanes Harvey, Irma, and Maria, many USCG facilities, assets, systems, and equipment suffered damage. Disaster Supplemental Funding received addresses recovery and reconstitution costs due to damage incurred by numerous coastal response and security stations, particularly along the Florida, Georgia, North Carolina, Virginia, and Texas coasts as well as throughout Puerto Rico and the U.S. Virgin Islands.

For the testing conducted in 2021, USCG's assessment was focused on the associated FY 2019 disaster supplemental funding disbursements of over $42 million applicable for review under PIIA. The USCG PC&I – Disaster Supplemental Funding Funds program reported a 0.36 percent estimated payment error rate in 2021. Please refer to the figure below for additional detail regarding the breakouts and associated error categorization.

Figure 14: USCG PC&I – Disaster Supplemental Funds Reported Results



The table below summarizes improper payment amounts for all DHS programs deemed to be susceptible to significant improper payments. It provides a breakdown of estimated proper as well as consolidated improper and unknown payments and the associated rates for each applicable DHS program or activity.

Table 5: DHS Improper Payment Results and Reduction Outlook

DHS Program Name	Testing Conducted in FY 2020			Testing Conducted in FY 2021					Testing Planned for FY 2022
	Outlays ($M)	IP + UP ($M)	IP + UP (%)	Outlays ($M)	Proper ($M)	Proper (%)	IP + UP ($M)	IP + UP (%)	Reduction Target (%)
DHS Programs in Phase 2[26] and Reporting on Disbursements from Two Fiscal Years Prior									
CBP O&S – Disaster Supplemental Funds	$15.73	$0.86	5.45%	$17.96	$16.39	91.29%	$1.56	8.71%	6.50%
FEMA CBoL – Disaster Supplemental Funds	$94.38	$8.81	9.33%	$18.69	$18.02	96.42%	$0.67	3.58%	2.50%
FEMA DCM – Disaster Supplemental Funds	$18.30	$0.08	0.46%	$99.90	$80.69	80.77%	$19.21	19.23%	18.50%
FEMA DRF IHP – Disaster Supplemental Funds	$2,447.52	$26.17	1.07%	$131.61	$125.25	95.17%	$6.36	4.83%	2.50%
FEMA Payroll – Disaster Supplemental Funds	$662.22	$4.77	0.72%	$334.78	$323.24	96.55%	$11.54	3.45%	2.50%
FEMA PA – Disaster Supplemental Funds	$3,139.60	$700.15	22.30%	$3,935.14	$3,660.57	93.02%	$274.58	6.98%	6.50%
FEMA Travel – Disaster Supplemental Funds	$328.37	$7.37	2.25%	$108.58	$107.95	99.42%	$0.63	0.58%	0.50%
FEMA US&R – Disaster Supplemental Funds	$39.70	$7.37	18.56%	$15.31	$12.45	81.30%	$2.86	18.70%	18.00%
OIG Audits, Inspections, & Investigations – Disaster Supplemental Funds	*N/A - Program identified to begin reporting in 2021*			$16.03	$15.69	97.85%	$0.34	2.15%	N/A[27]
USCG ALC – Disaster Supplemental Funding	*N/A - Program identified to begin reporting in 2021*			$16.50	$16.50	100.00%	$0.00	0.00%	N/A[27]
USCG O&S – Disaster Supplemental Funds	$35.46	$0.43	1.21%	$15.45	$15.30	99.03%	$0.15	0.97%	0.90%
USCG PC&I – Disaster Supplemental Funds	*N/A - Program identified to begin reporting in 2021*			$42.60	$42.44	99.64%	$0.15	0.36%	N/A[27]
DHS Programs Moved out of Phase 2 (Statistical Testing and Reporting) in 2021									
FPS Payroll	$195.57	$3.66	1.87%	*N/A – As program was below the thresholds to be deemed susceptible to significant improper payments, the FPS Payroll program has been reverted to Phase 1.*[26]					
FEMA Vendor Pay (VP) Program	$2,289.03	$26.84	1.17%	*N/A – As program was below the thresholds to be deemed susceptible to significant improper payments, the FEMA VP program has been reverted to Phase 1.*[26, 28]					
ICE O&S – Disaster Supplemental Funding	$11.05	$0.00	0.00%	*N/A - Program did not exceed $10M of FY 2019 disbursements from Disaster Supplemental Funding. As such, the ICE O&S program has been reverted to Phase 1.*[26]					
TOTAL[29]	**$9,276.94**	**$786.51**	**8.48%**	**$4,752.54**	**$4,434.48**	**93.31%**	**$318.06**	**6.69%**	**N/A**

[26] Per updated OMB Circular A-123, Appendix C (M-21-19), programs determined as not likely to have an annual amount of improper payments plus an annual amount of unknown payments above the statutory threshold are referred to as being in Phase 1. Whereas programs likely to be above the statutory threshold must report an annual estimate and are referred to as being in Phase 2.

[27] Program does not have reduction target provided as a formal baseline has not yet been established.

[28] The Disaster Supplemental Funding was previously part of the consolidated FEMA VP program which had FY 2019 disbursements tested and reported in 2020. FY 2020 disbursements will roll onto the DHS two years in arrears schedule and will be tested and reported in 2022.

[29] The total amounts and percentages do not represent a true statistical improper payment estimate for the Department programs at a consolidated level. Estimates were calculated using estimated total outlays as well as the estimated total improper payment amount as reported for testing conducted in 2021.

For additional information related to the Department's improper payment efforts, details on the annual results to include error reasoning, corrective actions, as well as other areas of interest, please refer to the government-wide reporting archive available on PaymentAccuracy.gov.

2. Actions Taken to Address Auditor Recovery Recommendations

During FY 2021, the Department did not have any recapture audit activities conducted. As such, DHS did not have any auditor recovery recommendations to be addressed and reported in 2021. For additional information related to the Department's recovery audit efforts, please refer to PaymentAccuracy.gov.

Grants Programs

Grants Programs

The DHS continues its efforts in closing out grants and cooperative agreement awards. The summary table below shows the number of awards and balances for which closeout has not yet occurred, but for which period of performance had elapsed by two years or more prior to September 30, 2021 (i.e., on or before September 30, 2019).

Table 6: Grants/Cooperative Agreements Summary Status

Category	2 3 years FYs 2018 19	3 5 years FYs 2017 18	More than 5 years Before FY 2016
Number of Grants / Cooperative Agreements with Zero Dollar Balances	43	69	8
Number of Grants / Cooperative Agreements with Undistributed Balances	54	43	20
Total Dollar Amount of Undistributed Balances	$38,854,003	$19,659,110	$43,433,283

The above table comprises only FEMA's data and efforts in closing out its grants and cooperative agreements. During FY 2021, FEMA made a concerted effort to reduce the backlog of open grant awards through improved tracking, oversight, and coordination with responsible offices. Due to FEMA's efforts, FY 2021 reportable amounts are 84% less than the FY 2020 amounts. Challenges preventing the closure of the awards reported is primarily due to limited systematic closeout functionality. To remedy this challenge, FEMA is currently scheduled to deploy electronic closeout capabilities within FEMA GO during FY 2022. In addition to FEMA's systemic closeout functionality development in FY 2022, FEMA will continue its efforts to closeout awards by tracking, oversight, and coordination with responsible offices.

In FY 2021, DHS awarded $43 billion in grants and cooperative agreements through seven DHS financial assistance awarding offices. The awarding offices include the Federal Emergency Management Agency (FEMA), U.S. Coast Guard, U.S. Citizenship and Immigration Services, Cybersecurity and Infrastructure Security Agency, U.S. Immigration and Customs Enforcement, Science and Technology Directorate, and Countering Weapons of Mass Destruction Office. Since FEMA awarded ninety-nine percent of DHS grants and cooperative agreements in FY 2021

Civil Monetary Penalty Adjustment for Inflation

The Civil Monetary Penalties, adjusted for inflation, were published pursuant to The Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 (Pub. L. 114– 74 section 701, Nov. 2, 2015; part of the Bipartisan Budget Act of 2015), which amended the Federal Civil Penalties Inflation Adjustment Act of 1990 (28 U.S.C. 2461 note).

The following represents the Department's civil monetary penalties, all of which were last updated via regulation in 2021. Additional information about these penalties and the latest adjustment is available in the Federal Register Volume 86, No. 198.

Table 7: Civil Monetary Penalties

Penalty	Authority	Year Enacted	Adjusted New Penalty
CBP			
Non-compliance with arrival and departure manifest requirements for passengers, crew members, or occupants transported on commercial vessels or aircraft arriving to or departing from the United States	8 USC 1221(g); INA Section 231(g); 8 CFR 280.53(b)(1)	2002	$1,436
Non-compliance with landing requirements at designated ports of entry for aircraft transporting aliens	8 USC 1224; INA Section 234; 8 CFR 280.53(b)(2)	1990	$3,901
Violations of removal orders relating to aliens transported on vessels or aircraft under section 241(d) of the INA, or for costs associated with removal under section 241(e) of the INA	8 USC 1253(c)(1)(A); INA Section 243(c)(1)(A); 8 CFR 280.53(b)(4)	1996	$3,289
Failure to remove alien stowaways under section 241(d)(2) of the INA	8 USC 1253(c)(1)(B); INA Section 243(c)(1)(B); 8 CFR 280.53(b)(5)	1996	$8,224
Failure to report an illegal landing or desertion of alien crewmen, and for each alien not reported on arrival or departure manifest or lists required in accordance with section 251 of the INA (for each alien)	8 USC 1281(d); INA Section 251(d); 8 CFR 280.53(b)(6)	1990	$390
Use of alien crewmen for longshore work in violation of section 251(d) of the INA	8 USC 1281(d); INA Section 251(d); 8 CFR 280.53(b)(6)	1990	$9,753
Failure to control, detain, or remove alien crewmen	8 USC 1284(a); INA Section 254(a); 8 CFR 280.53(b)(7)	1990	Minimum $975 Maximum $5,851
Employment on passenger vessels of aliens afflicted with certain disabilities	8 USC 1285; INA Section 255; 8 CFR 280.53(b)(8)	1990	$1,951
Discharge of alien crewmen	8 USC 1286; INA Section 256; 8 CFR 280.53(b)(9)	1990	Minimum $2,925 Maximum $5,851

Penalty	Authority	Year Enacted	Adjusted New Penalty
Bringing into the United States alien crewmen with intent to evade immigration laws	8 USC 1287; INA Section 257; 8 CFR 280.53(b)(10)	1990	$19,505
Failure to prevent the unauthorized landing of aliens	8 USC § 1321(a); INA Section 271(a); 8 CFR 280.53(b)(11)	1990	$5,851
Bringing to the United States aliens subject to denial of admission on a health-related ground	8 USC § 1322(a); INA Section 272(a); 8 CFR 280.53(b)(12)	1990	$5,851
Bringing to the United States aliens without required documentation	8 USC § 1323(b); INA Section 273(b); 8 CFR 280.53(b)(13)	1990	$5,851
Improper entry	8 USC § 1325(b) INA Section 275(b); 8 CFR 280.53(b)(15)	1996	Minimum $82 Maximum $412
Dealing in or using empty stamped imported liquor containers	19 USC 469	1879	$546
Transporting passengers between coastwise points in the United States by a non-coastwise qualified vessel	46 USC 55103(b); 19 CFR 4.80(b)(2)	1898	$822
Towing a vessel between coastwise points in the United States by a non-coastwise qualified vessel	46 USC 55111(c); 19 CFR 4.92	1940	Minimum $957 Maximum $3,011 plus $164 per ton
Failure to depart voluntarily	8 USC 1229(c)(d); INA Section 243(c)(1)(A); 8 CFR 280.53(b)(3)	1952	Minimum $1,644; Maximum $8,224
Failure to depart	8 USC 1324d; INA Section 274D; 8 CFR 280.53(b)(14)	1952	$823
Employing a vessel in a trade without a required Certificate of Documentation	19 USC 1706(a); 19 CFR 4.80(i)	1980	$1,368
Transporting passengers coastwise for hire by certain vessels (knows as Bowaters vessels) that do not meet specified conditions	46 USC 12118(f)(3)	1958	$546
ICE			
Violation of Immigration and Naturalization Act (INA) sections 274C(a)(1)–(a)(4) (First offense)	8 CFR 270.3(b)(1)(ii)(A)	1990	Minimum $487 Maximum $3,901
Violation of Immigration and Naturalization Act (INA) sections 274C(a)(5)–(a)(6) (First offense)	8 CFR 270.3(b)(1)(ii)(B)	1996	Minimum $412 Maximum $3,289
Violation of Immigration and Nationality Act (INA) sections 274C(a)(1)–(a)(4) (Subsequent offenses)	8 CFR 270.3(b)(1)(ii)(C)	1990	Minimum $3,901 Maximum $9,753
Violation of Immigration and Naturalization Act (INA) sections 274C(a)(5)–(a)(6) (Subsequent offenses)	8 CFR 270.3(b)(1)(ii)(D)	1996	Minimum $3,289 Maximum $8,224
Violation/prohibition of indemnity bonds	8 CFR 274a.8(b)	1986	$2,360
Knowingly hiring, recruiting, referral, or retention of unauthorized aliens (per unauthorized alien) (First offense)	8 CFR 274a.10(b)(1)(ii)(A)	1986	Minimum $590 Maximum $4,722
Knowingly hiring, recruiting, referral, or retention of unauthorized aliens (per unauthorized alien) (Second offense)	8 CFR 274a.10(b)(1)(ii)(B)	1986	Minimum $4,722 Maximum $11,803

Penalty	Authority	Year Enacted	Adjusted New Penalty
Knowingly hiring, recruiting, referral, or retention of unauthorized aliens (per unauthorized alien) (Subsequent offenses)	8 CFR 274a.10(b)(1)(ii)(C)	1986	Minimum $7,082 Maximum $23,607
I–9 paperwork violations	8 CFR 274a.10(b)(2)	1986	Minimum $237 Maximum $2,360
Failure to depart voluntarily	8 USC 1229c(d); INA Section 240B(d); 8 CFR 280.53(b)(3)	1996	Minimum $1,644 Maximum $8,224
Failure to depart	8 USC 1324(d); INA Section 274D; 8 CFR 280.53(b)(14)	1996	$823
NPPD			
Non-compliance with CFATS regulations	6 USC 624(b)(1); 6 CFR 27.300(b)(3)	2002	$35,905
TSA			
Certain aviation related violations by an individual or small business concern (49 CFR Ch. XII § 1503.401(c)(1))	49 USC 46301(a)(1), (4), (5); 49 USC 46301(d)(8)	2003	$14,074 (up to a total of $70,375 total for small business, $562,996 for others)
Certain aviation related violations by any other person not operating an aircraft for the transportation of passengers or property for compensation (49 CFR Ch. XII § 1503.401(c)(2))	49 USC 46301(a)(1), (4), (5); 49 USC 46301(d)(8)	2003	$14,074 (up to a total of $70,375 total for small business, $562,996 for others)
Certain aviation related violations by a person operating an aircraft for the transportation of passengers or property for compensation (49 CFR Ch. XII § 1503.401(c)(3))	49 USC 46301(a)(1), (4), (5); 49 USC 46301(d)(8)	2003	$35,188 (up to a total of $562,996 per civil penalty action)
Violation of any other provision of title 49 USC or of 46 USC ch. 701, a regulation prescribed, or order issued under thereunder (49 CFR Ch. XII § 1503.401(b))	49 USC 114(v)	2009	$12,045 (up to a total of $60,226 for individuals and small businesses, $481,802 for others)
USCG			
Saving Life and Property	14 USC 521(c)	2014	$10,967
Saving Life and Property (Intentional Interference with Broadcast)	14 USC 521(e)	2012	$1,125
Confidentiality of Medical Quality Assurance Records (first offense)	14 USC 645(i); 33 CFR 27.3	1992	$5,508
Confidentiality of Medical Quality Assurance Records (subsequent offenses)	14 USC 645(i); 33 CFR 27.3	1992	$36,726
Aquatic Nuisance Species in Waters of the United States	16 USC 4711(g)(1); 33 CFR 27.3	1996	$41,120
Obstruction of Revenue Officers by Masters of Vessels	19 USC 70; 33 CFR 27.3	1935	$8,212
Obstruction of Revenue Officers by Masters of Vessels—Minimum Penalty	19 USC 70; 33 CFR 27.3	1935	$1,916
Failure to Stop Vessel When Directed; Master, Owner, Operator or Person in Charge	19 USC 1581(d)	1930	$5,148
Failure to Stop Vessel When Directed; Master, Owner, Operator or Person in Charge - Minimum Penalty	19 USC 1581(d)	1930	$1,030
Anchorage Ground/Harbor Regulations General	33 USC 471; 33 CFR 27.3	2010	$11,906

Penalty	Authority	Year Enacted	Adjusted New Penalty
Anchorage Ground/Harbor Regulations St. Mary's River	33 USC 474; 33 CFR 27.3	1946	$822
Bridges/Failure to Comply with Regulations	33 USC 495(b); 33 CFR 27.3	2008	$30,058
Bridges/Drawbridges	33 USC 499(c); 33 CFR 27.3	2008	$30,058
Bridges/Failure to Alter Bridge Obstructing Navigation	33 USC 502(c); 33 CFR 27.3	2008	$30,058
Bridges/Maintenance and Operation	33 USC 533(b); 33 CFR 27.3	2008	$30,058
Bridge to Bridge Communication; Master, Person in Charge or Pilot	33 USC 1208(a); 33 CFR 27.3	1971	$2,190
Bridge to Bridge Communication; Vessel	33 USC 1208(b); 33 CFR 27.3	1971	$2,190
PWSA Regulations	33 USC 1232(a)	1978	$97,014
Vessel Navigation: Regattas or Marine Parades; Unlicensed Person in Charge	46 USC 70041(d)(1)(B); 33 CFR 27.3	1990	$9,753
Vessel Navigation: Regattas or Marine Parades; Owner Onboard Vessel	46 USC 70041(d)(1)(C); 33 CFR 27.3	1990	$9,753
Vessel Navigation: Regattas or Marine Parades; Other Persons	46 USC 70041(d)(1)(D); 33 CFR 27.3	1990	$4,876
Oil/Hazardous Substances: Discharges (Class I per violation)	33 USC 1321(b)(6)(B)(i); 33 CFR 27.3	1990	$19,505
Oil/Hazardous Substances: Discharges (Class I total under paragraph)	33 USC 1321(b)(6)(B)(i); 33 CFR 27.3	1990	$48,762
Oil/Hazardous Substances: Discharges (Class II per day of violation)	33 USC 1321(b)(6)(B)(ii); 33 CFR 27.3	1990	$19,505
Oil/Hazardous Substances: Discharges (Class II total under paragraph)	33 USC 1321(b)(6)(B)(ii); 33 CFR 27.3	1990	$243,808
Oil/Hazardous Substances: Discharges (per day of violation) Judicial Assessment	33 USC 1321(b)(7)(A); 33 CFR 27.3	1990	$48,762
Oil/Hazardous Substances: Discharges (per barrel of oil or unit discharged) Judicial Assessment	33 USC 1321(b)(7)(A); 33 CFR 27.3	1990	$1,951
Oil/Hazardous Substances: Failure to Carry Out Removal/Comply With Order (Judicial Assessment)	33 USC 1321(b)(7)(B); 33 CFR 27.3	1990	$48,762
Oil/Hazardous Substances: Failure to Comply with Regulation Issued Under 1321(j) (Judicial Assessment)	33 USC 1321(b)(7)(C); 33 CFR 27.3	1990	$48,762
Oil/Hazardous Substances: Discharges, Gross Negligence (per barrel of oil or unit discharged) Judicial Assessment	33 USC 1321(b)(7)(D); 33 CFR 27.3	1990	$5,851
Oil/Hazardous Substances: Discharges, Gross Negligence—Minimum Penalty (Judicial Assessment)	33 USC 1321(b)(7)(D); 33 CFR 27.3	1990	$195,047
Marine Sanitation Devices; Operating	33 USC 1322(j); 33 CFR 27.3	1972	$8,212
Marine Sanitation Devices; Sale or Manufacture	33 USC 1322(j); 33 CFR 27.3	1972	$21,896
International Navigation Rules; Operator	33 USC 1608(a); 33 CFR 27.3	1980	$15,352
International Navigation Rules; Vessel	33 USC 1608(b); 33 CFR 27.3	1980	$15,352
Pollution from Ships; General	33 USC 1908(b)(1); 33 CFR 27.3	1980	$76,764
Pollution from Ships; False Statement	33 USC 1908(b)(2); 33 CFR 27.3	1980	$15,352
Inland Navigation Rules; Operator	33 USC 2072(a); 33 CFR 27.3	1980	$15,352
Inland Navigation Rules; Vessel	33 USC 2072(b); 33 CFR 27.3	1980	$15,352
Shore Protection; General	33 USC 2609(a); 33 CFR 27.3	1988	$54,157

Penalty	Authority	Year Enacted	Adjusted New Penalty
Shore Protection; Operating Without Permit	33 USC 2609(b); 33 CFR 27.3	1988	$21,663
Oil Pollution Liability and Compensation	33 USC 2716a(a); 33 CFR 27.3	1990	$48,762
Clean Hulls; Civil Enforcement	33 USC 3852(a)(1)(A); 33 CFR 27.3	2010	$44,646
Clean Hulls; False statements	33 USC 3852(a)(1)(A); 33 CFR 27.3	2010	$59,528
Clean Hulls; Recreational Vessel	33 USC 3852(c); 33 CFR 27.3	2010	$5,953
Hazardous Substances, Releases Liability, Compensation (Class I)	42 USC 9609(a); 33 CFR 27.3	1986	$59,017
Hazardous Substances, Releases Liability, Compensation (Class II)	42 USC 9609(b); 33 CFR 27.3	1986	$59,017
Hazardous Substances, Releases Liability, Compensation (Class II subsequent offense)	42 USC 9609(b); 33 CFR 27.3	1986	$177,053
Hazardous Substances, Releases, Liability, Compensation (Judicial Assessment)	42 USC 9609(c); 33 CFR 27.3	1986	$59,017
Hazardous Substances, Releases, Liability, Compensation (Judicial Assessment subsequent offense)	42 USC 9609(c); 33 CFR 27.3	1986	$177,053
Safe Containers for International Cargo	46 USC 80509; 33 CFR 27.3	2006	$6,451
Suspension of Passenger Service	46 USC 70305; 33 CFR 27.3	2006	$64,515
Vessel Inspection or Examination Fees	46 USC 2110(e); 33 CFR 27.3	1990	$9,753
Alcohol and Dangerous Drug Testing	46 USC 2115; 33 CFR 27.3	1998	$7,939
Negligent Operations: Recreational Vessels	46 USC 2302(a); 33 CFR 27.3	2002	$7,181
Negligent Operations: Other Vessels	46 USC 2302(a); 33 CFR 27.3	2002	$35,905
Operating a Vessel While Under the Influence of Alcohol or a Dangerous Drug	46 USC 2302(c)(1); 33 CFR 27.3	1998	$7,939
Vessel Reporting Requirements: Owner, Charterer, Managing Operator, or Agent	46 USC 2306(a)(4); 33 CFR 27.3	1984	$12,363
Vessel Reporting Requirements: Master	46 USC 2306(b)(2); 33 CFR 27.3	1984	$2,473
Immersion Suits	46 USC 3102(c)(1); 33 CFR 27.3	1984	$12,363
Inspection Permit	46 USC 3302(i)(5); 33 CFR 27.3	1983	$2,579
Vessel Inspection; General	46 USC 3318(a); 33 CFR 27.3	1984	$12,363
Vessel Inspection; Nautical School Vessel	46 USC 3318(g); 33 CFR 27.3	1984	$12,363
Vessel Inspection; Failure to Give Notice IAW 3304(b)	46 USC 3318(h); 33 CFR 27.3	1984	$2,473
Vessel Inspection; Failure to Give Notice IAW 3309 (c)	46 USC 3318(i); 33 CFR 27.3	1984	$2,473
Vessel Inspection; Vessel ≥ 1600 Gross Tons	46 USC 3318(j)(1); 33 CFR 27.3	1984	$24,730
Vessel Inspection; Vessel <1600 Gross Tons	46 USC 3318(j)(1); 33 CFR 27.3	1984	$4,946
Vessel Inspection; Failure to Comply with 3311(b)	46 USC 3318(k); 33 CFR 27.3	1984	$24,730
Vessel Inspection; Violation of 3318(b)-3318(f)	46 USC 3318(l); 33 CFR 27.3	1984	$12,363
List/count of Passengers	46 USC 3502(e); 33 CFR 27.3	1983	$257
Notification to Passengers	46 USC 3504(c); 33 CFR 27.3	1983	$25,780
Notification to Passengers; Sale of Tickets	46 USC 3504(c); 33 CFR 27.3	1983	$1,288
Copies of Laws on Passenger Vessels; Master	46 USC 3506; 33 CFR 27.3	1983	$516
Liquid Bulk/Dangerous Cargo	46 USC 3718(a)(1); 33 CFR 27.3	1983	$64,452
Uninspected Vessels	46 USC 4106; 33 CFR 27.3	1988	$10,832
Recreational Vessels (maximum for related series of violations)	46 USC 4311(b)(1); 33 CFR 27.3	2004	$341,000
Recreational Vessels; Violation of 4307(a)	46 USC 4311(b)(1); 33 CFR 27.3	2004	$6,820

Penalty	Authority	Year Enacted	Adjusted New Penalty
Recreational Vessels	46 USC 4311(c); 33 CFR 27.3	1983	$2,579
Uninspected Commercial Fishing Industry Vessels	46 USC 4507; 33 CFR 27.3	1988	$10,832
Abandonment of Barges	46 USC 4703; 33 CFR 27.3	1992	$1,835
Load Lines	46 USC 5116(a); 33 CFR 27.3	1986	$11,803
Load Lines; Violation of 5112(a)	46 USC 5116(b); 33 CFR 27.3	1986	$23,607
Load Lines; Violation of 5112(b)	46 USC 5116(c); 33 CFR 27.3	1986	$11,803
Reporting Marine Casualties	46 USC 6103(a); 33 CFR 27.3	1996	$41,120
Reporting Marine Casualties; Violation of 6104	46 USC 6103(b); 33 CFR 27.3	1988	$10,832
Manning of Inspected Vessels; Failure to Report Deficiency in Vessel Complement	46 USC 8101(e); 33 CFR 27.3	1990	$1,951
Manning of Inspected Vessels	46 USC 8101(f); 33 CFR 27.3	1990	$19,505
Manning of Inspected Vessels; Employing or Serving in Capacity not Licensed by USCG	46 USC 8101(g); 33 CFR 27.3	1990	$19,505
Manning of Inspected Vessels; Freight Vessel <100 GT, Small Passenger Vessel, or Sailing School Vessel	46 USC 8101(h); 33 CFR 27.3	1983	$2,579
Watchmen on Passenger Vessels	46 USC 8102(a)	1983	$2,579
Citizenship Requirements	46 USC 8103(f)	1983	$1,288
Watches on Vessels; Violation of 8104(a) or (b)	46 USC 8104(i)	1990	$19,505
Watches on Vessels; Violation of 8104(c), (d), (e), or (h)	46 USC 8104(j)	1990	$19,505
Staff Department on Vessels	46 USC 8302(e)	1983	$257
Officer's Competency Certificates	46 USC 8304(d)	1983	$257
Coastwise Pilotage; Owner, Charterer, Managing Operator, Agent, Master or Individual in Charge	46 USC 8502(e)	1990	$19,505
Coastwise Pilotage; Individual	46 USC 8502(f)	1990	$19,505
Federal Pilots	46 USC 8503	1984	$61,820
Merchant Mariners Documents	46 USC 8701(d)	1983	$1,288
Crew Requirements	46 USC 8702(e)	1990	$19,505
Small Vessel Manning	46 USC 8906	1996	$41,120
Pilotage: Great Lakes; Owner, Charterer, Managing Operator, Agent, Master or Individual in Charge	46 USC 9308(a)	1990	$19,505
Pilotage: Great Lakes; Individual	46 USC 9308(b)	1990	$19,505
Pilotage: Great Lakes; Violation of 9303	46 USC 9308(c)	1990	$19,505
Failure to Report Sexual Offense	46 USC 10104(b)	1989	$10,366
Pay Advances to Seamen	46 USC 10314(a)(2)	1983	$1,288
Pay Advances to Seamen; Remuneration for Employment	46 USC 10314(b)	1983	$1,288
Allotment to Seamen	46 USC 10315(c)	1983	$1,288
Seamen Protection; General	46 USC 10321	1993	$8,935
Coastwise Voyages: Advances	46 USC 10505(a)(2)	1993	$8,935
Coastwise Voyages: Advances; Remuneration for Employment	46 USC 10505(b)	1993	$8,935
Coastwise Voyages: Seamen Protection; General	46 USC 10508(b)	1993	$8,935

Penalty	Authority	Year Enacted	Adjusted New Penalty
Effects of Deceased Seamen	46 USC 10711	1983	$516
Complaints of Unfitness	46 USC 10902(a)(2)	1983	$1,288
Proceedings on Examination of Vessel	46 USC 10903(d)	1983	$257
Permission to Make Complaint	46 USC 10907(b)	1983	$1,288
Accommodations for Seamen	46 USC 11101(f)	1983	$1,288
Medicine Chests on Vessels	46 USC 11102(b)	1983	$1,288
Destitute Seamen	46 USC 11104(b)	1983	$257
Wages on Discharge	46 USC 11105(c)	1983	$1,288
Log Books; Master Failing to Maintain	46 USC 11303(a)	1983	$516
Log Books; Master Failing to Make Entry	46 USC 11303(b)	1983	$516
Log Books; Late Entry	46 USC 11303(c)	1983	$387
Carrying of Sheath Knives	46 USC 11506	1983	$129
Documentation of Vessels	46 USC 12151(a)(1)	2012	$16,884
Documentation of Vessels; Activities involving mobile offshore drilling units	46 USC 12151(a)(2)	2012	$28,142
Engaging in Fishing After Falsifying Eligibility (fine per day)	46 USC 12151(c)	2006	$129,032
Numbering of Undocumented Vessel; Willful violation	46 USC 12309(a)	1983	$12,891
Numbering of Undocumented Vessels	46 USC 12309(b)	1983	$2,579
Vessel Identification System	46 USC 12507(b)	1988	$21,663
Measurement of Vessels	46 USC 14701	1986	$47,216
Measurement; False Statements	46 USC 14702	1986	$47,216
Commercial Instruments and Maritime Liens	46 USC 31309	1988	$21,663
Commercial Instruments and Maritime Liens; Mortgagor	46 USC 31330(a)(2)	1988	$21,663
Commercial Instruments and Maritime Liens; Violation of 31329	46 USC 31330(b)(2)	1988	$54,157
Port Security	46 USC 70119(a)	2002	$35,905
Port Security; Continuing Violations	46 USC 70119(b)	2006	$64,515
Maritime Drug Law Enforcement	46 USC 70506(c)	2010	$5,953
Hazardous Materials: Related to Vessels	49 USC 5123(a)(1)	2012	$84,425
Hazardous Materials: Related to Vessels; Penalty from Fatalities, Serious Injuries/ Illness or substantial Damage to Property	49 USC 5123(a)(2)	2012	$196,992
Hazardous Materials: Related to Vessels; Training	49 USC 5123(a)(3)	2012	$508

Other Key Regulatory Requirements

Prompt Payment Act

The Prompt Payment Act requires federal agencies to make timely payments (within 30 days of receipt of invoice) to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts only when they are economically justified. The Department's Components submit Prompt Payment data for the OMB CFO Council's Metric Tracking System. Metric statistics are reported with at least a six-week lag. DHS Components conduct periodic reviews to identify potential problems. On time-payments for FY 2021 were 99.62 percent versus the goal of 98 percent. Total interest paid in FY 2021 was $837,101.94 or $40.33 per million invoiced. This represents an improvement over FY 2020 were the Department's on time-payments was 96.79 percent and the total interest paid was $1,043,287.14.

Debt Collection Improvement Act

The Debt Collection Improvement Act (DCIA) of 1996 passed as part of the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (P.L. 100-134) tasked Treasury with certain governmentwide debt collection responsibilities. Among other things, the law provides that delinquent non-tax debts generally must be turned over to the Treasury for appropriate action to collect the debt. Certain types of debts are exempt from this requirement. In compliance with DCIA, the Department manages its debt collection activities under the DHS DCIA regulation. The regulation is implemented under the Department's comprehensive debt collection policies that provide guidance to the Components on the administrative collection of debt; referring non-taxable debt; writing off non-taxable debt; reporting debt to consumer reporting agencies; assessing interest, penalties, and administrative costs; and reporting receivables to the Treasury. The Digital Accountability and Transparency Act of 2014 was enacted in May 2014 and updated DCIA requirements for referring non-taxable debt.

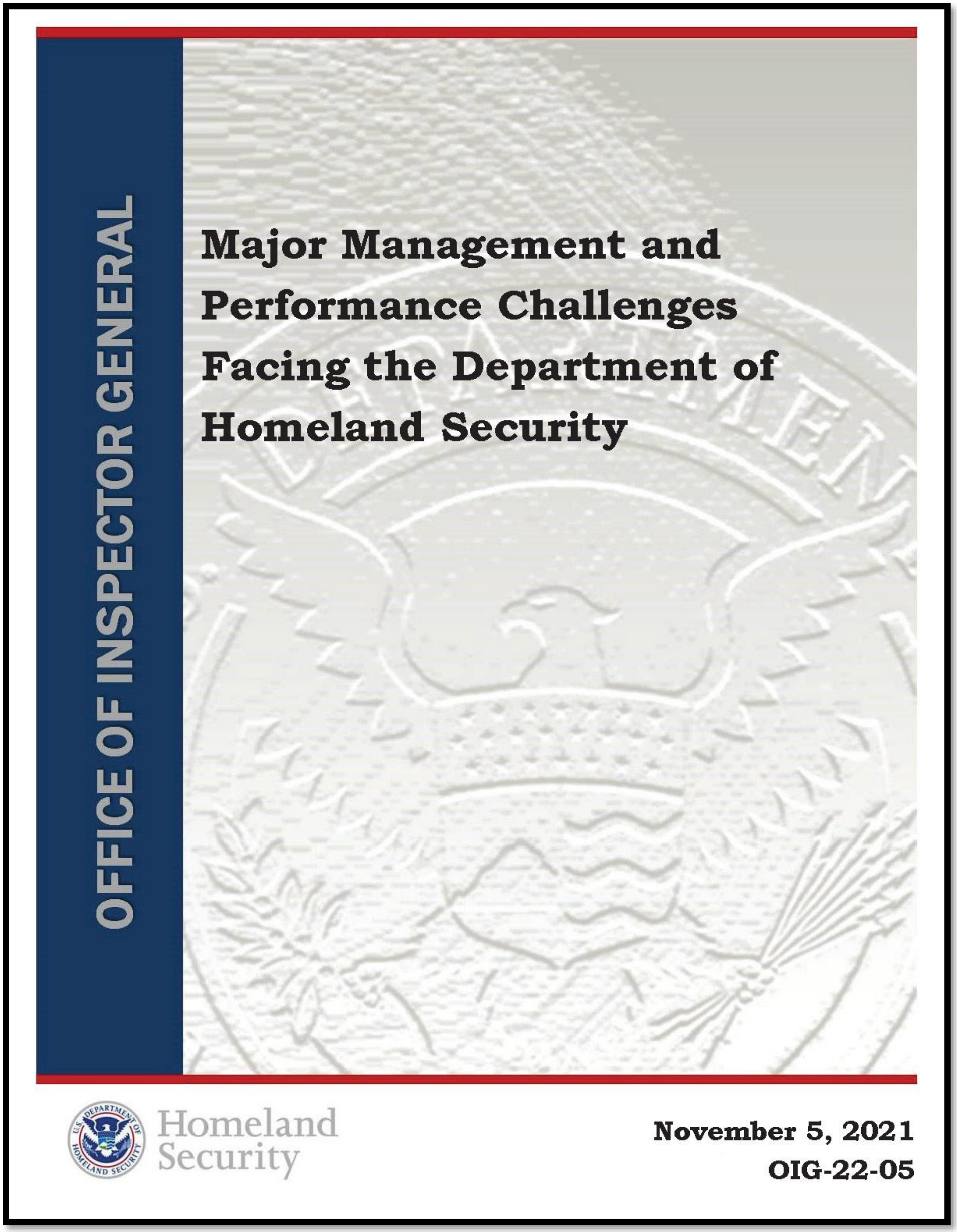
Biennial User Charges Review

The Chief Financial Officers Act of 1990 and OMB Circular A-25 Revised, User Charges, requires each agency CFO to review, on a biennial basis, the fees, royalties, rents, and other charges imposed by the agency for services and items of value provided to specific recipients, beyond those received by the general public. While this is not a year for reporting results, the Department is using this opportunity to provide an update to a Government Accountability Office (GAO) report recommendation.

In FY 2021, the Department, in coordination with the Fee Governance Council, reviewed the results of the FY 2020 Biennial Fee Review (BFR), took follow-on steps to track and report on deficiencies, and made recommendations to DHS Components on what steps can be taken to achieve full cost recovery or improve fee collections. An example of a successful outcome of the BFR can be seen in the Student and Exchange Visitor Program (SEVP) fee Final Rule, which increased I-901 and I-97 fees, established a new fee for Appeals and Recertification efforts, and increased the scope of the Site Visit fee, all moving the SEVP closer towards full cost recovery.

A copy of GAO's full report (GAO-16-443) can be accessed at the following link: DHS Management: Enhanced Oversight Could Better Ensure Programs Receiving Fees and Other Collections Use Funds Efficiently | U.S. GAO .

Office of Inspector General's Report on Major Management and Performance Challenges Facing the Department of Homeland Security


OFFICE OF INSPECTOR GENERAL

Major Management and Performance Challenges Facing the Department of Homeland Security

Homeland Security

November 5, 2021

OIG-22-05

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

November 5, 2021

MEMORANDUM FOR: Alejandro N. Mayorkas
Secretary

FROM: Joseph V. Cuffari, Ph.D.
Inspector General

JOSEPH V CUFFARI

Digitally signed by JOSEPH V CUFFARI
Date: 2021.11.05 10:56:51 -04'00'

SUBJECT: *Major Management and Performance Challenges Facing the Department of Homeland Security*

For your information is our annual report, *Major Management and Performance Challenges Facing the Department of Homeland Security*. Pursuant to the *Reports Consolidation Act of 2000*, the Office of Inspector General must issue an annual statement summarizing what the Inspector General considers the most serious management and performance challenges facing the Department of Homeland Security and assessing its progress addressing them. This requirement is consistent with our duties under the *Inspector General Act of 1978*, as amended, to conduct audits as well as provide leadership and recommend policies to promote economy, efficiency, and effectiveness in DHS programs and operations. We remain committed to conducting independent oversight and making recommendations to help the Department address these major management and performance challenges.

These challenges stem from the Department's operations under its six strategic goals contained in the *Department of Homeland Security's Strategic Plan for Fiscal Years 2020-2024* (DHS' FY 2020-2024 Strategic Plan). (See Appendix A for the goals and objectives in DHS' FY 2020–2024 Strategic Plan).

Based on our recent and prior audits, inspections and evaluations, and investigations, and the ongoing pandemic, DHS' most serious management and performance challenges remain largely unchanged from FY 2020. They include:

- Performing Fully and Effectively during COVID-19;
- Countering Terrorism and Homeland Security Threats;
- Securing Cyberspace and Critical Infrastructure;
- Ensuring Proper Financial Management;
- Ensuring Technology Supports Essential Mission Operations;
- Improving FEMA's Contracts and Grants Management, Disaster Assistance, and Fraud Prevention; and

- Strengthening Oversight and Management of Major Systems Acquisition and Procurement.

In this report, we describe each challenge and the risks it poses, summarize actions DHS has taken or is taking to address each challenge, and summarize steps DHS needs to take to further address each challenge. These challenges affect a broad spectrum of the Department's operations and may overlap. They also mirror three major priorities you identified as you assumed leadership of DHS: addressing immigration, cybersecurity, and domestic violence/terrorism.[1] DHS provided technical comments and we amended the report to incorporate them, as appropriate. Appendix B contains the Department's response in its entirety.

Performing Fully and Effectively during COVID-19

THE CHALLENGE

The challenge to maintain mission critical operations and programs during disruptions relates to all of DHS' strategic goals (see Appendix A for DHS' Strategic Goals for FY 2020–2024). The Department is also charged with leading a whole-of government response to confront the pandemic, keep Americans safe, help detect and slow the spread of the virus and its variants, and make vaccines available to as many people as possible.

WHY IS THIS A CHALLENGE?

While DHS has been able to continue operating effectively, it comprises components and critical operations that traditionally interact face-to-face with stakeholders. A prolonged emergency response may take a toll on critical mission operations including managing detainee, migrant, and workforce health and safety; response coordination efforts; and unified planning oversight. In addition, the abundance of pandemic-related Federal assistance is susceptible to mismanagement and fraud.

Detainee and Workforce Health and Safety:

Our unannounced inspections consistently identified weaknesses in measures to prevent COVID-19 outbreaks among detainees, protect staff, and identify and treat those sickened by the virus in ICE detention centers around the country. For example, video footage examined by Office of Inspector General (OIG) shows detainees and detention center staff not wearing masks and not

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[1] Testimony of Alejandro N. Mayorkas during a hearing on "Department of Homeland Security Resource Management and Operational Priorities," before the United States House of Representatives, Committee on Appropriations, Subcommittee on Homeland Security, May 26, 2021.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

distanced from each other.[2] Further, we determined that DHS needs to strengthen its COVID-19 response for migrants at the southwest border.[3] Evaluating detainee, migrant, and workforce health and safety will continue to be a high priority for OIG.

Response Coordination Efforts:
Given the magnitude and importance of the Department's response coordination efforts, we initiated several reviews, including efforts to determine the extent of DHS' coordination with Federal agencies and mission assignments, and the effectiveness of pandemic-related aid and assistance programs.

DHS Internal Oversight of Unified Planning:
We found that DHS did not effectively implement corrective actions intended to provide the operational efficiencies and controls needed in the COVID-19 pandemic.[4] Specifically, DHS did not ensure the office it designated to manage and account for pandemic personal protective equipment (PPE) provided adequate management oversight; confirmed components' compliance with the Integrated Logistics Support Plan; or designated an office to promote continued oversight, review, and approval of the Department's and components' pandemic plans. As a result, early in the pandemic as COVID-19 spread throughout the world, DHS did not have sufficient department-wide oversight of PPE or pandemic planning.

DHS Oversight of Pandemic Funding:
OIG has received a substantial number of COVID-19 fraud complaints nationwide and continues to investigate COVID-19 fraud perpetrated by companies and individuals seeking to exploit DHS-affiliated programs. This is most evident in relief programs that the Federal Emergency Management Agency (FEMA) administers. As of September 17, 2021, OIG had received more than 6,300 complaints and initiated more than 160 investigations related to COVID-19 fraud.

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[2] *Violations of ICE Detention Standards at Adams County Correctional Center*, OIG-21-46, July 2021; *Violations of ICE Detention Standards at Pulaski County Jail*, OIG-21-32, April 2021; *Violations of Detention Standards Amidst COVID-19 Outbreak at La Palma Correctional Center in Eloy, AZ*, OIG-21-30, March 2021; *ICE's Management of COVID-19 in Its Detention Facilities Provides Lessons Learned for Future Pandemic Responses*, OIG-21-58, Sept. 2021.
[3] *DHS Needs to Enhance Its COVID-19 Response at the Southwest Border*, OIG-21-60, Sept. 2021.
[4] *Ineffective Implementation of Corrective Actions Diminishes DHS' Oversight of Its Pandemic Planning*, OIG-21-14, Dec. 2020.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

WHAT PROGRESS HAS DHS MADE?

Detainee and Workforce Health and Safety:

DHS is working to implement OIG recommendations for COVID-19 protocols in its ICE detention centers and offering detainees vaccinations, as well as improving its COVID-19 response at the southwest border. DHS is also working more closely with its contractors to fully comply with Centers for Disease Control and Prevention, Health and Human Services (HHS), and other guidance to improve health and safety conditions for detainees and staff.

Coordination Efforts:

FEMA worked closely with HHS and other Federal agencies to facilitate the shipment of PPE and ventilators to support state, local, territorial, and tribal governments during the pandemic. DHS provided significant logistical support to these stakeholders to fulfill requests for PPE and ventilators. After the Stafford Act declaration, FEMA took further action to coordinate the whole-of-government Federal response by activating and establishing the National Response Coordination Center (NRCC), Regional Response Coordination Centers (RRCCs), and, with HHS, established the Unified Coordination Group (UCG). Also, during the height of the pandemic, the Nation experienced a significant shortage of ventilators used to treat COVID-19 patients. FEMA and the UCG developed and communicated a standard process for allocating limited supplies of ventilators.[5]

DHS Implementation of Unified Planning:

Responses to OIG recommendations show that DHS has implemented centralized processes to manage department-wide pandemic funding and PPE supplies to ensure greater oversight and control.

DHS Oversight of Pandemic Funding:

Since the start of the pandemic, OIG has provided significant oversight of DHS' COVID-19 relief efforts. The *CARES Act* provided OIG with funding to conduct oversight of DHS' CARES Act funding. We are currently using this funding for audits and inspections of DHS' administration and oversight of the CARES Act and investigations of fraud related to contracts and grants.

WHAT DHS STILL NEEDS TO DO

Continuing and improving on a centralized strategic approach to its ongoing pandemic response should help DHS better prepare its components to protect the workforce and persons in their care and custody; operate in a well-

[5] *Lessons Learned from FEMA's Initial Response to COVID-19*, OIG-21-64, Sept 2021

coordinated, effective manner in non-standard circumstances; and better manage funding and supplies during this and future pandemics.

Countering Terrorism and Homeland Security Threats

THE CHALLENGE

DHS is challenged to properly plan and provide adequate guidance, oversight, and monitoring of programs and operations to counter terrorism and homeland security threats; make related improvements to U.S. Border Security and Immigration operations; and leverage law enforcement unity of effort. In addition, DHS seeks to achieve specific objectives related to countering terrorism and homeland security threats as well as securing U.S. borders and approaches. (See Appendix A, Goals 1 and 2).

WHY IS THIS A CHALLENGE?

The threats facing the Nation are dynamic and become more complex over time. Threats are more interconnected, technologically advanced, targeted, and close to home. Developing an understanding of today's challenges includes assessing dangers posed by domestic and international actors abroad, in the Nation's interior, and at its borders.

Countering Terrorism:

We discovered that, although Transportation Security Administration (TSA) has developed a deployment strategy based on risk for Explosives Detection Canine Teams (EDCT) at airports, there is no such strategy for surface transportation. Consequently, TSA cannot be sure that EDCTs are properly allocated based on risk to protect the traveling public from a terrorist attack.[6] Further, TSA has yet to complete implementation of the 9/11 Act and TSA Modernization Act to develop strategies, programs, regulations, reports, and other initiatives to strengthen transportation security.[7] We also found that the BioWatch Program, charged with bioterror early warning systems, has information sharing and program deployment challenges that reduce nationwide readiness for response to biological terror threats.[8] CBP had not made significant improvement in response to a past audit examining mail inspection and physical security. Further, CBP did not properly document and conduct searches of electronic devices, fully assess the effectiveness of the electronic

[6] *TSA Did Not Asses Its Explosives Detection Canine Team Program for Surface Transportation Security*, OIG-21-52, August 2021; *CBP Needs to Improve the Oversight of Its Canine Program to Better Train and Reinforce Canine Performance*, OIG-21-19, Feb. 2021.
[7] *TSA Has Not Implemented All Requirements of the 9/11 Act and the TSA Modernization Act*, OIG-21-68, Sept. 2021.
[8] *Biological Threat Detection and Response Challenges Remain for BioWatch*, OIG-21-22, March 2021.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

device search program, or adequately manage electronic device search equipment..[9] Moreover, DHS did not fully assess the effectiveness of the Transportation Security Card Program, as required by the *Transportation Security Card Program Assessment* statute.[10]

Border Security and Immigration:
We found ICE did not consistently enforce I-9 requirements with employers, allowing unauthorized noncitizens[11] workers to remain in the United States with unlawful employment.[12] Additionally, CBP allowed potentially high-risk drivers into its Free and Secure Trade program, exposing its land ports of entry to heightened threats.[13] We are currently examining multiple facets of border security and immigration, including admissibility operations, medical care, sheltering programs, detention conditions, and benefit programs.

Law Enforcement Unity of Effort:
We found that DHS did not benefit from unity of effort, such as sharing and leveraging processes, data collection, and best practices across components when it did not contribute to the FBI's criminal database DNA samples from those it arrested.[14] ICE Homeland Security Investigations did not accurately track dissemination and receipt of human trafficking tips; did not consistently follow up on tips; and used independently managed program offices with partial responsibilities, creating challenges for HSI to coordinate and oversee human trafficking efforts and assist U.S. Attorney prosecution efforts. In addition, DHS did not have a comprehensive strategy accommodating state and local law enforcement assistance to protect Federal facilities during a disturbance.[15]

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[9] *CBP Continues to Experience Challenges Managing Searches of Electronic Devices at Ports of Entry*, OIG-21-63, Sept. 2021.
[10] *DHS Did Not Fully Comply with Requirements in the Transportation Security Card Program Assessment*, OIG-21-66, Sept. 2021.
[11] Many existing DHS policies and procedures refer to noncitizens as "aliens."
[12] *Guidance Needs Improvement to Deter Illegal Employment*, OIG-21-15, Jan. 2021.
[13] *CBP's Fast Program Exposes Border to Security Risks*, OIG-21-70, Sept. 2021.
[14] *DHS Law Enforcement Components Did Not Consistently Collect DNA From Arrestees*, OIG-21-35, May 2021.
[15] *ICE Faces Challenges in Its Efforts to Assist Human Trafficking Victims*, OIG-21-40, June 2021; *DHS Had Authority to Deploy Federal Law Enforcement Officers to Protect Federal Facilities in Portland, Oregon, but Should Ensure Better Planning and Education*, OIG-21-31, April 2021.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

WHAT PROGRESS HAS DHS MADE?

Countering Terrorism:
TSA provides significant resources and support to law enforcement canine teams within the surface transportation system by providing a canine for each handler, initial team training, and an annual stipend. It is working to improve its resource allocation models and coordination strategies. DHS is also working to update its assessments to optimize the Nation's defense against bioterrorism; improve cooperative agreements with stakeholders; update detection capability; and conduct, document, and assess exercises. CBP continues to struggle with mail inspection and physical security.

Border Security and Immigration:
Corrective action plans submitted to OIG show that DHS is updating internal guidance to ensure staff fully understand processes, procedures, information gathering systems, and the value of robust controls.

Law Enforcement Unity of Effort:
DHS is developing more stringent internal control aimed at consistent adherence to the *DNA Fingerprint Act of 2005* and other relevant legislation. It is updating internal directives, policies, procedures, and training plans to support improved controls fostering collaboration among its components and Federal law enforcement partners.[16]

WHAT DHS STILL NEEDS TO DO
According to OIG's recommendations, DHS needs to remain committed to effective threat assessment methods and law enforcement collaboration, as well as internal control development, including useful and relevant goals, performance indicators, metrics, measures, corrective action plan implementation, and deliberate improvement.

Securing Cyberspace and Critical Infrastructure

THE CHALLENGE
DHS' missions in this area, providing enterprise-wide security solutions to protect the Department and partnering with industry and government to understand and manage risk to the Nation's critical infrastructure, are multi-faceted and vast. This challenge relates to every aspect of DHS' mission and

[16] *ICE Faces Challenges in Its Efforts to Assist Human Trafficking Victims*, OIG-21-40, June 2021; *DHS Had Authority to Deploy Federal Law Enforcement Officers to Protect Federal Facilities in Portland, Oregon, but Should Ensure Better Planning and Education*, OIG-21-31, April 2021; *DHS Law Enforcement Components Did Not Consistently Collect DNA From Arrestees*, OIG-21-35, May 2021.

www.oig.dhs.gov 7 OIG-22-05

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

relates to all of DHS' strategic goals (See Appendix A for DHS' Strategic Goals for FY 2020–2024).

WHY IS THIS A CHALLENGE?

Threats in this area can be characterized similarly to those of countering terrorism in that they are dynamic, more interconnected, technologically advanced, and more targeted. For example, the recent introduction of malicious code into IT monitoring and management software tools at SolarWinds, compromised nine Federal agencies and hundreds of private sector companies. Nation-state hackers are suspected to have caused this unprecedented breach.

Cybersecurity:

We found that DHS' information security program for Top Secret/Sensitive Compartmented Information intelligence systems is effective. However, we identified deficiencies in some areas. We also found that DHS has not yet strengthened its cybersecurity posture by implementing a Continuous Diagnostics and Mitigation (CDM) program.[17] Additionally, we found that CBP potentially exposed the personally identifiable information of more than 10 million people by not protecting Mobile Passport Control applications from cybersecurity threats.[18] We continue to examine cybersecurity topics such as protections to safeguard sensitive data from malware, ransomware, and phishing attacks; information security requirements on CBP contracts; USCIS access controls; cyber intrusion prevention efforts; and progress in joint cybersecurity efforts.

Critical Infrastructure:

In *DHS Has Secured the Nation's Election Systems, but Work Remains to Protect the Infrastructure (OIG-21-01)*, we found that DHS had made progress in its coordination efforts to secure election systems, but needed to take additional steps to more effectively address both cyber and physical security risks. In *CISA Can Improve Efforts to Ensure Dam Security and Resilience (OIG-21-59)*, we found that the Cybersecurity and Infrastructure Security Agency (CISA) cannot demonstrate how its oversight has improved Dams Sector security and resilience. We are also in the process of assessing FEMA's and CISA's coordination efforts to improve Energy Sectors resilience.

[17] *Evaluation of DHS' Compliance with Federal Information Security Modernization Act Requirements for Intelligence Systems for Fiscal Year 2020*, OIG-21-55, August 2021; *DHS Made Limited Progress in Implementing the Continuous Diagnostics and Mitigation Program*, OIG-21-38, June 2021.
[18] *CBP Has Placed Travelers' PII at Risk of Exploitation*, OIG-21-47, July 2021.

www.oig.dhs.gov 8 OIG-22-05

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

WHAT PROGRESS HAS DHS MADE?

Cybersecurity:
Responses to OIG recommendations show that DHS has continued to provide effective oversight of the department-wide intelligence system and has implemented programs to monitor ongoing security practices. It is also working to update relevant plans, address identified vulnerabilities, and continue to improve configuration and patch management. The DHS Office of the Chief Information Officer claims it holds monthly meetings with Component CIOs to focus on information security improvements related to security authorizations, weakness remediation, reducing vulnerabilities, and ensuring prompt installation of software patches, among other things.

Critical Infrastructure:
DHS is improving coordination efforts and outreach to a broad spectrum of stakeholders.

WHAT DHS STILL NEEDS TO DO
According to OIG's recommendations, DHS needs to continue making deliberate improvements to manage the risks to information security and critical infrastructure. DHS needs to develop systems, assets, processes, and capabilities to reduce threat, increase visibility into Federal cyberposture, and improve response capabilities. DHS needs to continue to revise planning documents to address risks, improve information sharing, and conduct timely assessments to better secure information systems and critical infrastructure.

Ensuring Proper Financial Management

THE CHALLENGE
This challenge is foundational to every aspect of DHS' mission and relates to all of DHS' strategic goals (See Appendix A for DHS' Strategic Goals for FY 2020–2024). Proper financial management and resulting data are commonly viewed as important strategic assets.

WHY IS THIS A CHALLENGE?
DHS has shown it has strong financial principles, but notable financial deficiencies can undermine the public's confidence in DHS and its ability to make strategic investments using taxpayer dollars. Strong financial management principles and results are compelling strengths for appropriators.

Financial Management and Oversight:
Independent auditors identified material weaknesses in Information Technology Controls and Information Systems and Financial Reporting. The auditors

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

identified significant deficiencies in Custodial Activities: Entry Processing, Refunds and Drawback, and Seized and Forfeited Property; Grants Management; and Insurance Liabilities. They also noted noncompliance with the *Presidential Memorandum on Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019; Federal Managers' Financial Integrity Act of 1982; and Federal Financial Management Improvement Act of 1996.*[19] We found a pattern of noncompliance with applicable laws, regulations, and policies relative to internal controls, oversight, and reporting.[20]

We are in the process of completing our third mandated *Digital and Transparency Act of 2014* (DATA Act) audit. As previously reported,[21] DHS needed to take action to accurately align budgetary data with the President's budget, reduce award misalignments across DATA Act files, improve the timeliness of financial assistance reporting, implement and use government-wide data standards, and address risks to data quality.

WHAT PROGRESS HAS DHS MADE?

Financial Management and Oversight:

Corrective action plans provided to OIG show that DHS is working to improve compliance with requirements set forth in laws, regulations, directives, and policies by strengthening oversight, internal control, data quality, and transparency.

DHS has taken steps toward remediating issues OIG previously reported, including in Financial Statement Audit reports. DHS has undertaken a Financial Systems Modernization program which is intended to replace outdated systems across the Department. To date, a modernized financial management system has been deployed to the Countering Weapons of Mass Destruction Office and TSA, and according to DHS, United States Coast Guard is on schedule to be deployed in early FY 2022. DHS officials have stated that this modernization effort will help mitigate many of the underlying causes of

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[19] *Independent Auditors' report on DHS' FY 2020 Financial Statements and Internal Control over Financial Reporting*, OIG-21-08, Nov. 2020.

[20] *Department of Homeland Security's FY 2020 Compliance with the Payment Integrity Information Act of 2019 and Executive Order 13520, Reducing Improper Payments*, OIG-21-33, May 2021; *FY 2018 Audit of Science and Technology Bankcard Program Indicates Risks*, OIG-21-51, July 2021; *FEMA Prematurely Obligated $478 Million in Public Assistance Funds from FY 2017 through FY 2019*, OIG-21-54, August 2021; *TSA Needs to Improve Its Oversight for Human Capital Contracts*, OIG-21-39, June 2021.

[21] *DHS' Implementation of the DATA Act*, OIG-18-34, Dec. 2017; *DHS Has Made Progress in Meeting DATA Act Requirements, But Challenges Remain*, OIG-20-62, August 2020.

www.oig.dhs.gov 10 OIG-22-05

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

the Information Technology Controls and Information Systems and Financial Reporting material weaknesses identified in our previous audit reports.

WHAT DHS STILL NEEDS TO DO
OIG's recommendations express DHS' need to continue to thoughtfully execute its role as steward of taxpayer investment in its programs and make conscientious progress toward full compliance with applicable laws, regulations, directives, policies, prevailing guidance, and internal control standards.

Ensuring Technology Supports Essential Mission Operations

THE CHALLENGE
DHS continues to struggle to provide technology support for personnel, system functionality and integration, address deficiencies, identify and prioritize systems for modernization, and ensure data is accurate and reliable for strategic decision makers. In addition, DHS seeks to achieve specific objectives related to improving workforce capability and strengthening governance. (See Appendix A, Goal 6).

WHY IS THIS A CHALLENGE?
DHS struggles to align DHS technology, personnel, resources, assets, systems, and infrastructure to support its mission. State-of-the-art technology and services are critical tools to that end. It is important for DHS to mitigate risks to operational performance before they become issues and to deploy capability timely.

Systems and Applications:
We found a pattern of control deficiencies, outdated or incorrectly configured systems, and inadequate operator training.[22] In addition, independent auditors identified material weaknesses in Information Technology Controls and Information Systems.[23]

Data Management:
In *OIG-21-37 Summary Report: Persistent Data Issues Hinder DHS Mission, Programs, and Operations*, we reported that significant challenges hinder DHS' day-to-day use of some of the Nation's largest and most diverse databases to

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[22] *CBP's Configuration Management Practices Policies and Procedures Did Not Effectively Prevent System Outage*, OIG-21-13, Dec. 2020; *USCIS Needs to Improve Its Electronic Employment Eligibility Process*, OIG-21-56, August 2021; *CBP Has Placed Travelers' PII at Risk of Exploitation*, OIG-21-47, July 2021.
[23] *Independent Auditors' Report on DHS' FY 2020 Financial Statements and Internal Control over Financial Reporting*, OIG-21-08, Nov. 2020.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

support its vast mission operations. DHS needs to improve the collection and management of data across its components to better serve and safeguard the public. The data access, availability, accuracy, completeness, and relevance issues we identified presented numerous obstacles for DHS personnel who did not have essential information they needed for decision making or to effectively and efficiently carry out day-to-day mission operations. OIG also found data quality problems in the National Flood Insurance Program system.[24]

WHAT PROGRESS HAS DHS MADE?

Systems and Applications:
Responses to OIG's recommendations show that DHS is working to dedicate necessary resources to oversight, controls, configuration management, modernization, and strategic capability deployment.

Data Management:
As noted above, DHS has taken steps towards remediating issues OIG previously reported, including in Financial Statement Audit reports. The Department has taken corrective actions to implement recommendations in prior reports and has developed various plans and strategies to improve the quality and management of its data.[25]

WHAT DHS STILL NEEDS TO DO
OIG's recommendations show that DHS needs to increase and sustain its focus and effort to: (1) improve oversight, (2) ensure consistent configuration management, (3) prioritize systems and applications modernization, and (4) remediate the internal control issues that underlie data deficiencies.

Improving FEMA's Contracts and Grants Management, Disaster Assistance, and Fraud Prevention

THE CHALLENGE
FEMA continues to struggle to administer procurements and reimburse procurement costs and continues to experience systemic problems and operational difficulties contributing to inadequate management of disaster relief grants and supplies. In addition, DHS seeks to achieve specific objectives related to strengthening preparedness and resilience (See Appendix A, Goal 5).

[24] *FIMA Made Progress Modernizing Its NFIP System, but Data Quality Needs Improvement*, OIG-21-04 , Nov. 2020
[25] *Independent Auditors' Report on DHS' FY 2020 Financial Statements and Internal Control over Financial Reporting*, OIG-21-08, Nov. 2020.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

WHY IS THIS A CHALLENGE?

At times, FEMA has not followed procurement laws, regulations, and procedures, nor has it ensured disaster grant recipients and subrecipients understand and comply with relevant authorities. FEMA has also proven susceptible to widespread fraud and made billions in improper payments.[26]

Contracts and Grants Management:
We have identified a pattern of grantee and subgrantee oversight weakness, insufficient systems to process information and data, inadequate policies and guidance, and improper payments.[27] We continue to examine FEMA's management of contracts and grants, including FEMA's contracting practices during national disaster declarations.

Disaster Assistance:
We identified persistent, systemic shortcomings in FEMA's disaster response and assistance.[28] OIG has published more than two dozen reports and issued 115 recommendations to improve Federal disaster response. We continue to examine FEMA's disaster response programs, including controls over mission

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[26] *FEMA Should Disallow $12.2 Million in Disaster Case Management Program Grant Funds Awarded to New York for Hurricane Sandy*, OIG-21-10, Nov. 2020; *FEMA Needs to Reduce the $579 Million Backlog of Projects in Its New York Public Assistance Grant Program*, OIG-21-23, March 2021; *Inadequate FEMA Oversight Delayed Completion and Closeout of Louisiana's Public Assistance Projects*, OIG-21-50, July 2021; *FEMA Prematurely Obligated $478 Million in Public Assistance Funds from FY 2017 through FY 2019*, OIG-21-54, August 2021; *FEMA's Procurement and Cost Reimbursement Review Process Needs Improvement*, OIG-21-26, March 2021; *FEMA Needs Revised Policies and Procedures to Better Manage Recovery of Disallowed Grant Funds*, OIG-21-28, March 2021; *FEMA Has Not Prioritized Compliance with the Disaster Mitigation Act of 2000, Hindering Its Ability to Reduce Repetitive Damages to Roads and Bridges*, OIG-21-43, July 2021; *FEMA Initiated the Hurricane Harvey Assistance Agreement without Necessary Processes and Controls*, OIG-21-42, July 2021; *FEMA Has Paid Billions in Improper Payments for SBA Dependent Other Needs Assistance since 2003*, OIG-20-60, August 2020.

[27] *FEMA Should Disallow $12.2 Million in Disaster Case Management Program Grant Funds Awarded to New York for Hurricane Sandy*, OIG-21-10, Nov. 2020; *FEMA Needs to Reduce the $579 Million Backlog of Projects in Its New York Public Assistance Grant Program*, OIG-21-23, March 2021; *Inadequate FEMA Oversight Delayed Completion and Closeout of Louisiana's Public Assistance Projects*, OIG-21-50, July 2021; *FEMA Prematurely Obligated $478 Million in Public Assistance Funds from FY 2017 through FY 2019*, OIG-21-54, August 2021; *FEMA's Procurement and Cost Reimbursement Review Process Needs Improvement*, OIG-21-26, March 2021; *FEMA Needs Revised Policies and Procedures to Better Manage Recovery of Disallowed Grant Funds*, OIG-21-28, March 2021; *FEMA Has Not Prioritized Compliance with the Disaster Mitigation Act of 2000, Hindering Its Ability to Reduce Repetitive Damages to Roads and Bridges*, OIG-21-43, July 2021; *FEMA Initiated the Hurricane Harvey Assistance Agreement without Necessary Processes and Controls*, OIG-21-42, July 2021.

[28] *Success of Future Disaster Response and Recovery Efforts Depends on FEMA Addressing Current Vulnerabilities*, OIG-21-2, March 2021; *Better Oversight and Planning Are Needed to Improve FEMA's Transitional Sheltering Assistance Program*, OIG-21-20, Feb. 2021.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

assignments in response to the pandemic and topics related to supply chain integrity.

Fraud Prevention:
There is overlap between fraud prevention challenges at the Department relative to the pandemic and fraud prevention in FEMA's contracts, grants management, and disaster assistance. As previously discussed, OIG has provided significant oversight of DHS' COVID-19 relief efforts. For example, OIG has investigated fraud allegations related to FEMA's PPE contracts and fraud networks that secured pandemic-related benefits.[29]

WHAT PROGRESS HAS DHS MADE?

Contracts and Grants Management:
OIG has reviewed corrective action plans showing that FEMA continues to strengthen adherence to Federal regulations and its own policy, oversight, risk assessment, and training.

Disaster Assistance:
Responses to OIG's recommendations show that FEMA is working to augment staff and systems to improve oversight, and develop resources, tools, and procedures to support more effective programs.

Fraud Prevention:
Since the passage of the CARES Act, FEMA has collaborated with OIG and others to leverage multi-disciplinary expertise to identify fraud schemes.

WHAT DHS STILL NEEDS TO DO

While DHS and FEMA continue to address the many recommendations in our reports, they need to analyze systemic weaknesses across the spectrum of disaster-related funding and services and make overarching improvements in risk assessment, controls, policies, systems and applications, resources, training, and collaboration with stakeholders.[30]

[29] *Success of Future Disaster Response and Recovery Efforts Depends on FEMA Addressing Current Vulnerabilities*, OIG-21-2, March 2021.
[30] *Lessons Learned from Prior Reports on Disaster-related Procurement and Contracting*, OIG-18-29, Dec 2017; *Lessons Learned from FEMA's Initial Response to COVID-19*, OIG-21-64, Sept 2021; *Summary and Key Findings of Fiscal Year 2015 FEMA Disaster Grant and Program Audits*, OIG-17-13, Nov 2016.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Strengthening Oversight and Management of Major Systems Acquisition and Procurement

THE CHALLENGE

Systems acquisitions are a key part of DHS' annual budget and are fundamental to accomplishing its many critical missions. This challenge relates to every aspect of DHS' mission and relates to all of DHS' strategic goals (See Appendix A for DHS' Strategic Goals for FY 2020–2024).

WHY IS THIS A CHALLENGE?

A successful systems acquisition process requires an effective acquisition management infrastructure. This is especially important for DHS because, in FY 2021 alone, DHS planned to spend more than $7 billion on major acquisition programs — with lifecycle costs in excess of $300 million.[31]

Acquisitions and Contracts Oversight and Management:

We identified issues with poorly defined operational requirements for assets being acquired, adherence to the DHS Acquisition Lifecycle Framework, contract oversight, and reporting.[32]

WHAT PROGRESS HAS DHS MADE?

The Department has generally made progress in its acquisition oversight processes and controls through implementation of a revised acquisition management directive.

Acquisitions Oversight and Management:

DHS is working to update acquisition policy and guidance, including specific guidance on developing operational requirements and sharing lessons learned across acquisitions programs.

WHAT DHS STILL NEEDS TO DO

DHS Office of Program Accountability and Risk Management needs to continue to strengthen oversight of acquisitions programs to ensure they are in compliance with all key steps in the Acquisition Lifecycle Framework and other

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[31] *GAO's DHS Annual Assessment, GAO-21-175*

[32] *U.S. Customs and Border Protection's Acquisition Management of Aviation Fleet Needs Improvement to Meet Operational Needs*, OIG-21-53, August 2021; *ICE's Oversight of the Capgemini Contract Needs Improvement*, OIG-21-57, August 2021; *DHS Grants and Contracts Awarded through Other Than Full and Open Competition, FYs 2018 and 2019*, OIG-21-17, Feb. 2021; *DHS Did Not Effectively Oversee TSA's Acquisition of Computed Tomography Systems*, OIG-21-69, Sept. 2021; *TSA Needs to Improve its Oversight for Human Capital Contracts*, OIG-21-39, June 2021.

www.oig.dhs.gov 15 OIG-22-05

requirements and guidance. DHS also needs to reinforce the use of the checklists, job aids, and guides developed by the DHS Office of the Chief Procurement Officer.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix A

GOAL 1: COUNTER TERRORISM AND HOMELAND SECURITY THREATS
OBJECTIVE 1.1: COLLECT, ANALYZE, AND SHARE ACTIONABLE INTELLIGENCE
OBJECTIVE 1.2: DETECT AND DISRUPT THREATS
OBJECTIVE 1.3: PROTECT DESIGNATED LEADERSHIP, EVENTS, AND SOFT TARGETS
OBJECTIVE 1.4: COUNTER WEAPONS OF MASS DESTRUCTION AND EMERGING THREATS

GOAL 2: SECURE U.S. BORDERS AND APPROACHES
OBJECTIVE 2.1: SECURE AND MANAGE AIR, LAND, AND MARITIME BORDERS
OBJECTIVE 2.2: EXTEND THE REACH OF U.S. BORDER SECURITY
OBJECTIVE 2.3: ENFORCE U.S. IMMIGRATION LAWS
OBJECTIVE 2.4: ADMINISTER IMMIGRATION BENEFITS TO ADVANCE THE SECURITY AND PROSPERITY OF THE NATION

GOAL 3: SECURE CYBERSPACE AND CRITICAL INFRASTRUCTURE
OBJECTIVE 3.1: SECURE FEDERAL CIVILIAN NETWORKS
OBJECTIVE 3.2: STRENGTHEN THE SECURITY AND RESILIENCE OF CRITICAL INFRASTRUCTURE
OBJECTIVE 3.3: ASSESS AND COUNTER EVOLVING CYBERSECURITY RISKS
OBJECTIVE 3.4: COMBAT CYBERCRIME

GOAL 4: PRESERVE AND UPHOLD THE NATION'S PROSPERITY AND ECONOMIC SECURITY
OBJECTIVE 4.1: ENFORCE U.S. TRADE LAWS AND FACILITATE LAWFUL INTERNATIONAL TRADE AND TRAVEL
OBJECTIVE 4.2: SAFEGUARD THE U.S. TRANSPORTATION SYSTEM
OBJECTIVE 4.3: MAINTAIN U.S. WATERWAYS AND MARITIME RESOURCES
OBJECTIVE 4.4: SAFEGUARD U.S. FINANCIAL SYSTEMS

GOAL 5: STRENGTHEN PREPAREDNESS AND RESILIENCE
OBJECTIVE 5.1: BUILD A NATIONAL CULTURE OF PREPAREDNESS
OBJECTIVE 5.2: RESPOND DURING INCIDENTS
OBJECTIVE 5.3: SUPPORT OUTCOME-DRIVEN COMMUNITY RECOVERY
OBJECTIVE 5.4: TRAIN AND EXERCISE FIRST RESPONDERS

GOAL 6: CHAMPION THE DHS WORKFORCE AND STRENGTHEN THE DEPARTMENT
OBJECTIVE 6.1: STRENGTHEN DEPARTMENTAL GOVERNANCE AND MANAGEMENT
OBJECTIVE 6.2: DEVELOP AND MAINTAIN A HIGH PERFORMING WORKFORCE
OBJECTIVE 6.3: OPTIMIZE SUPPORT TO MISSION OPERATIONS

Source: *Department of Homeland Security's Strategic Plan for Fiscal Years 2020-2024* (undated)
Table of Contents

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B

DHS Comments to the Draft Report

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

Homeland Security

November 1, 2021

MEMORANDUM FOR: Joseph V. Cuffari, Ph.D.
Inspector General

FROM: Jim H. Crumpacker, CIA, CFE
Director
Departmental GAO-OIG Liaison Office

JIM H CRUMPACKER Digitally signed by JIM H CRUMPACKER Date: 2021.11.01 15:11:03 -04'00'

SUBJECT: Management Response to Draft Report: "Major Management and Performance Challenges Facing the Department of Homeland Security" (Project No. 21-058-OEA-DHS)

Thank you for the opportunity to comment on this draft report. The U.S. Department of Homeland Security (DHS or the Department) appreciates the Office of Inspector General's (OIG) work preparing and issuing this report, which summarizes the most serious management and performance challenges you believe are facing the Department and assesses progress in addressing them.

As Secretary of Homeland Security Alejandro N. Mayorkas recently stated: "DHS is fundamentally a Department of partnerships." DHS depends on close coordination with the intelligence community, law enforcement, state, local, tribal and territorial officials, nonprofit organizations, social service groups, and many others to successfully fulfill its vital mission of securing the Nation from the many threats we face. This includes DHS's partnership with the OIG.

Senior DHS leadership is committed to maintaining a culture where its employees and contractors understand the OIG's work providing independent oversight, detecting and preventing waste, fraud, and abuse, and promoting excellence, integrity, and accountability within the Department—truly helps strengthen the Department, and that everyone must be open and transparent during their interactions with the OIG staff.

DHS leadership, program officials, and subject matter experts will consider the OIG perspectives offered in this report when moving forward to further address these management and performance challenges during the coming year. Of particular note, the Department welcomes OIG's format change to this year's report which more clearly

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

outlines (1) each challenge and why the challenge exits, (2) the progress made to address the challenge, and (3) what remains to be done. Examples of additional context regarding the progress made to address each challenge follows.

Performing Fully and Effectively during COVID-19 Pandemic

Since the start of the coronavirus (COVID-19) public health emergency, the Federal Emergency Management Agency (FEMA) provided unprecedented assistance to state, local, tribal, and territorial (SLTT) governments in taking action to protect public health and safety. In particular, the FEMA Public Assistance (PA) program awarded more funding in 2020 than in any prior year, amounting to approximately five times the previous annual average. Further, FEMA PA program exceeded this number in just the first half of 2021. As of October 26, 2021, FEMA's PA program obligated more than $32.8 billion as part of the response to COVID-19, and expects this sum will continue to grow as the Nation combats the surging Delta variant and ongoing emergency.

At the outset of COVID-19, FEMA made significant changes to the PA process to avoid delays and remove barriers to providing assistance to the public and SLTT governments, such as simplifying information and application requirements and enabling applicants to apply directly to FEMA. Despite the increase in PA applications for COVID-19 assistance, the steps FEMA took to simplify and streamline the PA process resulted in significantly faster processing times for COVID-19 emergency protective measure projects. For emergency protective measure projects in all disasters declared from January 1, 2018 to October 26, 2021, COVID-19 applications were processed (from project creation to initial funding) in a median of 85 days, compared to a median of 115 days for non-COVID-19 applications. It is important to recognize that FEMA addressed challenges in delivering COVID-19 assistance with innovative approaches that resulted in significantly improved results, including measurably faster processing timeframes for COVID-19 PA requests while maintaining the health and safety of employees, applicants, and stakeholders.

Countering Terrorism and Homeland Security Threats

The Department continues to assess past threats to national security and safeguard its law enforcement officers and the communities they serve against new ones. To foster additional unity of effort, this year DHS launched the Law Enforcement Coordination Council (LECC) chaired by Secretary of Homeland Security Mayorkas – the Department's first unified law enforcement coordination body to comprehensively assess a broad range of law enforcement matters, including its law enforcement policies and training. The LECC, led by an Executive Director (selection pending), is comprised of two committees, one covering training and the other use of force policy reform. The training committee met for the first time on October 25, 2021. Through these groups, the

2

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

LECC will conduct comprehensive reviews that ensure more fair, equitable, and impartial policing, as well as officer and community safety.

The LECC includes the leadership of each DHS law enforcement Component, as well as leadership of DHS Headquarters Offices with advisory and oversight roles, including the Office for Civil Rights and Civil Liberties, Privacy Office, and Office of the General Counsel. The LECC will evaluate and respond to emerging law enforcement challenges and opportunities, comprehensively assess potential policy changes, facilitate information sharing, and promote best practices. The LECC will also coordinate closely with partners across every level of government, as well as with other key stakeholders.

Securing Cyberspace and Critical Infrastructure

The Cybersecurity and Infrastructure Security Agency (CISA) continued to lead the national effort to understand, manage, and mitigate risk to the Nation's physical and cyber infrastructure. For example, CISA is coordinating closely with the FEMA Grants Programs Directorate and National Dam Safety Program to develop the appropriate interagency coordination agreements to formally document and define the respective roles and responsibilities for information-sharing and analytical collaboration for grant decision-making related to the safety, security, and resilience of dams.

At the same time, CISA's Cybersecurity Division has grown its personnel and programs over the past several years to enhance its ability to manage risk to critical infrastructure. This includes the creation of the Joint Cyber Defense Collaborative, which will strengthen CISA's partnerships and planning collaboration with private and public sector stakeholders. Additionally, CISA has grown its Cyber Defense Operations, ensuring that when there is a major cybersecurity attack, the Agency can analyze the many data feeds it receives to inform the impact of the attack on national critical functions. In sum, CISA continues to mature and strengthen its ability to reduce cybersecurity risk by building cybersecurity resilience into our Nation's most critical infrastructure, including partnerships with federal, state, local, and private sector partners.

Also, the DHS Office of the Chief Information Officer is enhancing the use of Continuous Diagnostics and Mitigation through an upgraded dashboard to monitor Component tool use, manage deadlines, and integrate Component data.

Ensuring Proper Financial Management

During the past year, DHS made significant progress to address this challenge as the Department sustained its unmodified financial statement audit opinion for the 9th consecutive year and took significant steps to strengthen internal controls and address audit findings. Many of the root causes behind the material weaknesses identified in the annual audit reports are related to outdated financial and business systems. At the start of

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

fiscal year (FY) 2021, DHS deployed a modernized financial, procurement, and asset management solution to the Transportation Security Administration (TSA) – the first major operational Component to modernize. DHS is currently on track to deploy the U.S. Coast Guard on the same modern platform during the first quarter of FY 2022.

Furthermore, in FY 2021, DHS awarded strategic sourcing vehicles for software and system integration services which will support the upcoming modernization of the financial systems used by CISA, FEMA, U.S. Immigration and Customs Enforcement, the Science and Technology Directorate, U.S. Citizenship and Immigration Services, and other DHS Headquarters offices during the next five years. These system modernization efforts, coupled with ongoing efforts to address prior-year audit findings and improve internal controls, will help DHS remediate the remaining auditor-reported material weaknesses and promote more efficient financial operations and effective stewardship of public funds.

Ensuring Technology Supports Essential Mission Operations

The Department continues to improve oversight and ensure consistent configuration management in three important ways. DHS is implementing the Unified Cybersecurity Maturity Model to standardize cybersecurity maturity level measurement including security practices, controls, and configurations and expanded the DHS Cybersecurity Service Provider program to include operational maturity assessment of the Component Network Operation Centers. In concert with CISA and other agencies, DHS also accelerated our Information Communications and Technology supply chain risk management implementation to ensure and improve the cybersecurity of the vendors entrusted with safeguarding DHS information products, services, and software.

Further, the Department continues to remediate the internal control issues that underlie data deficiencies by continuing to demonstrate improvements in data management operations. For example, DHS established a Data Inventory Program that provides a collection of data assets to create a data catalog that is accurate, complete, timely, secure, and will allow the Department to make more efficient use of the data it has, create new programs, engage in evidence-building activities, and dramatically reduce reporting requirements. DHS enhances mission effectiveness through quality data that is trusted and secure, whereby the Chief Data Officer collaborates with programs across the Department to implement the strategic objectives and information system controls for appropriate access by internal and external sources to protect the confidentiality, integrity, and availability of the data.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Improving FEMA's Contracts and Grants Management, Disaster Assistance, and Fraud Prevention

FEMA's Office of the Chief Component Procurement Officer (OCCPO) continues to improve communication and processes to support successful acquisitions during disaster and non-disaster operations. In June 2021, FEMA issued its FEMA Acquisition Manual that supplements the DHS Homeland Security Manual. FEMA OCCPO also revamped its Procurement Policy website to ensure Contracting Officers can easily navigate regulations, alerts, directives, and templates to obtain important information. In addition, the website for Disaster Contracting is continuously updated with advance contract information. OCCPO also has a Community of Practice that supports its core capability of procurement.

Regarding FEMA's disaster relief to state and local governments who procure goods and services, FEMA's Grant Programs Directorate's Procurement Disaster Assistance Team (PDAT) made significant progress to ensure that FEMA award recipients and subrecipients understand the federal rules that govern their purchasing actions under FEMA declarations and grant awards. Since January 2020, PDAT has launched the "Purchasing Under FEMA Awards" website (www.fema.gov/grants/procurement) designed to aid FEMA award recipients and subrecipients in complying with the Federal procurement rules. This website contains FEMA-wide policy resources, fact sheets, guides, as well as a schedule for upcoming training sessions. From January 2020 through mid-October 2021, PDAT delivered 224 procurement under grant training sessions to 24,332 participants which include FEMA staff; state, local, and tribal government representatives; and nonprofit partners.

Strengthening Oversight of Management and Major Systems Acquisition

DHS agrees with OIG's assessment that the Department has "made progress in its acquisition processes and controls" and is committed to further improvement and reinforcing the use of various tools and guides designed to facilitate compliance. Components will continue to work openly and collaboratively with DHS oversight organizations, while still following Departmental acquisition policy.

The Department believes that all acquisition programs within the portfolio are in compliance with established processes and policies and that adequate management and oversight is in place to continually monitor program cost, schedule, and performance against DHS-approved baselines. DHS, through the Office of Program Accountability and Risk Management (PARM), effectively manages acquisition program policy, governance, and oversight.

For example, as of September 2021, there are three programs in breach of their approved Acquisition Program Baseline, representing a 50 percent reduction in the number of

5

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

breach programs over the last year (three programs removed from breach status). In accordance with DHS acquisition policy, the remaining three breach programs are aggressively executing DHS-approved remediation plans in an effort to rebaseline and remove the programs from breach status by the end of 2021.

In addition, PARM continues to conduct quarterly portfolio assessments using the improved Acquisition Program Health Assessment tool and report, which provide an accurate picture of program performance. PARM also continues to participate in annual Component Acquisition Executive oversight reviews and individual program reviews for all Level 3 programs on the Master Acquisition Oversight List.

* * *

Again, thank you for the opportunity to review and comment on this draft report. Please feel free to contact me if you have any questions. We look forward to working with you during the coming year.

6

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Department of Homeland Security
Office of Inspector General, Mail Stop 0305
Attention: Hotline
245 Murray Drive, SW
Washington, DC 20528-0305

Appendix A: Acronyms

A

ACE – Automated Commercial Environment

AFR – Agency Financial Report

AGA – Association of Government Accountants

APG – Agency Priority Goal

ATON – Aids to Navigation

B

BRS – Blended Retirement System

BFR – Biennial Fee Review

C

CBoL – Commercial Bill of Lading

CBP – U.S. Customs and Border Protection

CBRN – Chemical, Biological, Radiological and Nuclear

CDC – Centers for Disease Control and Prevention

CDL – Community Disaster Loans

CEAR – Certificate of Excellence in Accountability Reporting

CFATS – Chemical Facility Anti–Terrorism Standards

CFO – Chief Financial Officer

CFR – Code of Federal Regulations

CIO – Chief Information Officer

CISA – Cybersecurity and Infrastructure Security Agency

COBRA – Consolidated Omnibus Budget Reconciliation Act of 1985

COLA – Cost of Living Allowance

CONOPS – Concept of Operations

COTS – Commercial Off–the–Shelf

CPI – Consumer Price Index

CSR – Cancer Statistics Review

CSRS – Civil Service Retirement System

CUAS – Counter Unmanned Aircraft Systems

CWMD – Countering Weapons of Mass Destruction

D

DADLP – Disaster Assistance Direct Loan Program

DATA Act – Digital Accountability and Transparency Act of 2014

DC – District of Columbia

DCIA – Debt Collection Improvement Act of 1996

DCM – Disaster Case Management

DHS – Department of Homeland Security

DIEMS – Date of Initial Entry into Military Service

DOD – U.S. Department of Defense

DOJ – Department of Justice

DOL – U.S. Department of Labor

DPIO – Deputy PIO

DRF – Disaster Relief Fund

E

EDS – Explosive Detection System

ERM – Enterprise Risk Management

ERO – Enforcement and Removal Operations

F

FAA – DHS Financial Accountability Act

FBwT – Fund Balance with Treasury

FCRA – Federal Credit Reform Act of 1990

FECA – Federal Employees Compensation Act of 1916

FEMA – Federal Emergency Management Agency

FERS – Federal Employees Retirement System

FEVB – Federal Employee and Veterans' Benefits

FFMIA – Federal Financial Management Improvement Act of 1996

FISMA – Federal Information Security Management Act

FLETC – Federal Law Enforcement Training Centers

FMFIA – Federal Managers' Financial Integrity Act

FPS – Federal Protective Service

FR – Financial Report

FRDAA – Fraud Reduction and Data Analytics Act

FSM – Financial Systems Modernization

FY – Fiscal Year

G

GAAP – Generally Accepted Accounting Principles

GAO – U.S. Government Accountability Office

GETS – Government Emergency Telecommunications Service

GPRA – Government Performance and Results Act of 1993

GPRAMA – GPRA Modernization Act of 2010

GSA – General Services Administration

GTAS – Government-wide Treasury Account Symbol

H

HFIAA – Homeowner Floor Insurance Affordability Act

HVA – High Value Assets

I

IA – Individual Assistance

I&A – Office of Intelligence and Analysis

ICE – U.S. Immigration and Customs Enforcement

ICMM – Internal Control Maturity Model

IEFA – Immigration Examination Fee Account

IHP – Individuals and Households Program

INA – Immigration and Nationality Act

IPE – Information Produced by Entity

IPERA – Improper Payments Elimination and Recovery Act of 2010

IPERIA – Improper Payments Elimination and Recovery Improvement Act of 2012

IPIA – Improper Payments Information Act of 2002

IT – Information Technology

L

LOI – Letter of Intent

M

MERHCF – Medicare–Eligible Retiree Health Care Fund

MGMT – Management Directorate

MHS – Military Health System

MRS – Military Retirement System

N

NRCC – National Response Coordination Center

NRMC – National Risk Management Center

O

O&S – Operations & Support

OCPO – Chief Procurement Officer

OIG – Office of Inspector General

OMB – Office of Management and Budget

OM&S – Operating Materials and Supplies

OPA – Oil Pollution Act of 1990

OPCON – Operational Control

OPEB – Other Post Retirement Benefits

OPLA – Office of the Principal Legal Advisor

OPM – Office of Personnel Management

OPO – Office of Protective Operations

OPS – Office of Operations Coordination

ORB – Other Retirement Benefits

OSLTF – Oil Spill Liability Trust Fund

OTA – Other Transaction Agreement

P

PA – Public Assistance

PA&E – Program Analysis and Evaluation

PIIA – Payment Integrity Information Act of 2019

PIO – Performance Improvement Officer

PP&E – Property, Plant, and Equipment

P.L. – Public Law

S

SAR – Search and Rescue

SBA - Small Business Administration

SBR – Statement of Budgetary Resources

SFFAS – Statement of Federal Financial Accounting Standards

SFRBTF – Sport Fish Restoration Boating Trust Fund

SNC - Statement of Net Cost

SOC – Service Organization Control

SOS – Schedule of Spending

SR – Strategic Review

S&T – Science and Technology Directorate

T

TAFS – Treasury Appropriation Fund Symbol

TBI – Treasury Breakeven Inflation

TCM – Trade Compliance Measurement

Treasury – Department of the Treasury

TSA – Transportation Security Administration

U

UAS – Unmanned Aerial System

U.S. – United States

US&R – Urban Search & Rescue

USC – United States Code

USCG – U.S. Coast Guard

USCIS – U. S. Citizenship and Immigration Services

USPS – U.S. Postal Service

USSGL – U.S. Standard General Ledger

USSS – U.S. Secret Service

V

VA – U.S. Department of Veterans Affairs

VP – Vendor Payment

W

WYO – Write Your Own

Appendix B: Acknowledgements

This AFR was produced with the tireless energies and talents of Department of Homeland Security Headquarters and Component employees and contract partners.

Within the Office of the Chief Financial Officer, the division of Financial Management is responsible for financial management policy, preparing annual financial statements and related notes and schedules, and coordinating the external audit of the Department's financial statements.

The division of Risk Management and Assurance provides direction in the areas of internal control to support the Secretary's assurance statement, risk management, and improper payments.

The division of Program Analysis and Evaluation conducts analysis for the Department on resource allocation issues and the measurement, reporting, and improvement of DHS performance, and coordinates the Performance Overview section of the AFR.

The division of GAO-OIG Audit Liaison facilitates Department relationships with audit organizations and coordinates with OIG on the Management Challenges report.

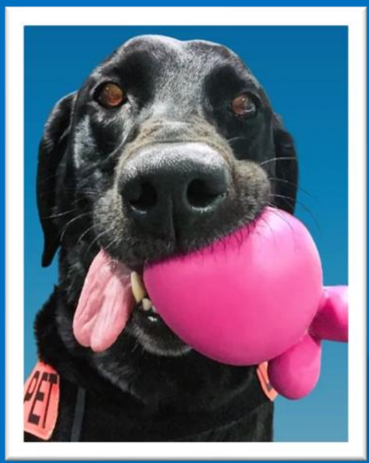
We offer our sincerest thanks to all the offices involved in the Department's FY 2021 Agency Financial Report for their hard work and contributions.

DHS DOGS ON DUTY

BELLA BELL

Bella Bell works hard for TSA to keep Sacramento International Airport (SMF) and our Nation safe.

She was named in tribute to Nina Patrice Bell who died on September 11th, 2001.

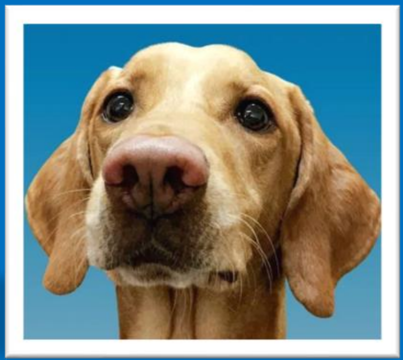


JJAGODA

JJagoda works hard for TSA to keep Washington Dulles International (IAD) and our Nation safe.

RONY

Rony works hard for TSA to keep Chicago Midway International Airport (MDW) and our Nation safe!



JUNG

Jung works hard for TSA to keep Miami International Airport (MIA) and our Nation Safe!

REA

Rea works hard for TSA to keep San Francisco International Airport (SFO) and our Nation safe.

CSOKI

Csoki works hard for TSA to keep Denver International Airport (DEN) and our Nation Safe.

Thanks to all the dogs that are critical to supporting our security missions!

Homeland
Security