



# Performance and Accountability Report

Fiscal Year 2004



Homeland  
Security



# Message from the Secretary

November 18, 2004



I am pleased to provide the Department of Homeland Security's *Performance and Accountability Report* for fiscal year 2004. The report describes our progress in protecting our Homeland while preserving the freedoms we cherish. Looking back at the challenges of the past year, I am proud of what the Department has accomplished and excited about the security structure we are building for our nation. I can unequivocally declare that the United States is better prepared and more secure than it was one year ago. However, the progress is not just the Department's progress, it's the Nation's progress. For it is a strong record of accomplishment made stronger by the shared commitment of ordinary, extraordinary citizens.

Together, as a nation, we reconstructed and unified programs, people and priorities in a way that facilitated efficiency, openness and outcomes. We joined together to seek out the most advanced technologies. We worked to reduce the vulnerabilities that were exploited on September 11<sup>th</sup> and think analytically about those that could be exploited in the future. We examined our critical infrastructure, our transportation systems, our borders, our ports and, of course, the skies above. Nothing was beyond our scope of analysis and review.

We took the challenge head-on, and, today, you can see and feel the difference in ways large and small. Permanent protections are in place that did not exist a year ago. Some didn't exist six months ago. And, these protections make it more difficult for terrorists to attack us.

As the 9/11 Commission so accurately put it: "The need to know has been replaced by the need to share." Widespread information sharing is the hallmark of the Nation's new approach to homeland security. That is why we have developed new tools for communication and collaboration that reach horizontally across federal departments and agencies and vertically to our partners at the state, local, territorial and tribal levels as well as the private sector and our international allies. Our success in improving information sharing and coordination has enhanced the ability of first responders to maintain essential communications and get the help they need; improved ability to identify potential terrorists and prevent them from entering the country; increased the safety of our transportation systems; and raised port and border security.

This year we established the Homeland Security Operations Center, which facilitates the flow of information and helps coordinate the actions of federal, state and local government, first responders, the private sector and our international allies. We also established the Homeland Security Information Network. This real-time collaboration system is already being used by more than 1,000 first responders to report incidents, crimes and potential terrorist acts to one another and to the Department through the Operations Center. It's like an "instant messenger" system for law enforcement and other public safety officials across the country. Already, we've reached full connectivity with all 50 states; remaining territories, counties, cities and others will be linked by the end of the year.

Achieving coordination throughout the first-responder community is one of the greatest challenges facing this country. Many of us know that the tragedy of September 11<sup>th</sup> was compounded by equipment that failed to work across jurisdictions and disciplines. This problem must be fixed. There are immediate steps we are taking in the short-term to improve interoperability and connectivity in a crisis. This year, we identified technical specifications that will allow first responders to communicate with one another during a crisis, regardless of frequency or mode of communication.

We are also working together toward a permanent solution – one that will not only help us respond to terrorist incidents, but also criminal events or natural disasters. Private sector ingenuity will help us address everything from full-spectrum communications requirements to standards for personal protective equipment. And, the private sector is responding with innovative and promising ideas.

To keep our citizens who fly in the skies safe, we have deployed advanced airline passenger screening equipment, employed thousands of trained government airport security personnel, placed federal air marshals on thousands of airline flights, and required the airlines to install hardened cockpit doors on every plane. The Department's cargo inspectors are now on site in Rotterdam, Netherlands; Singapore; Hong Kong and 22 other international ports of trade working with our allies to target and screen cargo heading for our shores. We have increased inspection of cargo entering our ports and have upgraded harbor patrols and surveillance.

To keep our citizens safe from those who seek to do us harm, we implemented the US-VISIT system, which uses state-of-the-art biometrics, to verify the identity of people crossing our borders. We have also upgraded our student exchange visitor system to identify imposters, while allowing for continued exchange so that we can continue to welcome legitimate students wishing to study in the United States. Every day we must operate with the knowledge that our enemies are changing based on how we change. This is why science and technology is key to winning this new kind of war. Our partnerships with the private sector, national laboratories, universities and research centers help us push the scientific envelope.

We are developing new resources for detecting the presence of nuclear materials in shipping containers and vehicles. We have deployed the next generation of biological and chemical countermeasures such as BioWatch, a set of broad-based detection tools uniquely sensitive enough to not only alert people to the presence of dangerous pathogens, but also facilitate evacuation.

Not only are we deploying new technologies to detect nuclear, biological and chemical weapons, we've worked hard to be ready to save lives after such attacks. Three years ago, our national stockpile of medications to protect Americans against a bioterrorist attack was drastically undersupplied. Today, we have stockpiled a billion doses of antibiotics and vaccines, including enough smallpox vaccine for every man, woman and child in America.

To improve the readiness of our local communities, the Department has allocated or awarded more than \$8.5 billion for our state and local partners across the country since March of last year. This money has enabled community officials to purchase much-needed equipment and training for both terrorist and natural disaster threats.

We've also launched the National Incident Management System and the Nation's first National Response Plan. As a result, instead of 50 individual state plans, we now have one unified procedure, so that those with responsibility for protection at all levels of government and the private sector understand their roles and responsibilities in the event of a crisis – and will have the tools they need to carry them out.

A year and a half ago, the Nation spoke of goals. Today, we talk of results and improving those results. This review is merely a brief glimpse of the progress that we as a nation have made.

The *President's Management Agenda* continues to guide the Department's efforts to make its programs more efficient, effective and results-oriented. We continue to make solid progress in implementing the core government-wide initiatives: Strategic Management of Human Capital; Competitive Sourcing; Improved Financial Performance; Expanded Electronic Government; and Budget and Performance Integration. In addition, the Department is also tracking real progress in meeting the two specific program initiatives of Federal Real Property Assets Management and also Research and Development Investments. This report discusses initiatives to transform the *President's Management Agenda* into the Department's own results agenda.

The performance information contained in this report is fundamentally complete; some performance goals and measures being enhanced from those in our annual performance plan. The performance information is reliable in accordance with guidance issued by the Office of Management and Budget except as noted in Part III, Performance Information.

Based on internal management evaluations, and in conjunction with the results of independent financial statement audit, the Department, except as noted in Part I, Management's Discussion and Analysis, and Appendix B, the Independent Auditor's Report, can provide reasonable assurance that the objectives of Section 2 (Management Controls) and Section 4 (Financial Management Systems) of the *Federal Management Financial Integrity Act* have been achieved.

Along with the Department's 180,000 employees, I am proud of all we have accomplished together in the past year in preparing and safeguarding the Nation against terror.

Sincerely,

A handwritten signature in black ink that reads "Tom Ridge". The signature is written in a cursive style with a long horizontal stroke at the end.

Tom Ridge

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# Executive Summary

## Who We Are

The U.S. Department of Homeland Security is a cabinet-level department of the Federal Government, responsible for leading the unified national effort to secure America. We prevent and deter terrorist attacks and protect against and respond to threats and hazards to the Nation. We ensure safe and secure borders, welcome lawful immigrants and visitors, and promote the free flow of people and commerce. Shortly after the Department was created in 2003, the Secretary established seven strategic goals to guide our priorities and inform our actions. These goals describe our role and responsibility to the Nation:

- **Awareness** – Identify and understand threats, assess vulnerabilities, determine potential impacts and disseminate timely information to our homeland security partners and the American public.
- **Prevention** – Detect, deter and mitigate threats to our homeland.
- **Protection** – Safeguard our people and their freedoms, critical infrastructure, property and the economy of our nation from acts of terrorism, natural disasters or other emergencies.
- **Response** – Lead, manage and coordinate the national response to acts of terrorism, natural disasters or other emergencies.
- **Recovery** – Lead national, state, local and private-sector efforts to restore services and rebuild communities after acts of terrorism, natural disasters or other emergencies.
- **Service** – Serve the public effectively by facilitating lawful trade, travel and immigration.
- **Organizational Excellence** – Value our most important resource, our people. Create a culture that promotes innovation, mutual respect, accountability and teamwork to achieve efficiencies, effectiveness and operational synergies.

To accomplish its mission, the Department is organized into five directorates:

- The **Information Analysis and Infrastructure Protection (IAIP) Directorate** identifies and assesses a broad range of intelligence information concerning threats to the Homeland, issues timely warnings and takes appropriate preventive and protective actions;
- The **Border and Transportation Security (BTS) Directorate** ensures the security of the Nation's borders and transportation systems. Its first priority is to prevent the entry of terrorists and the instruments of terrorism while simultaneously ensuring the efficient flow of lawful traffic and commerce. BTS includes the following organizational elements:
  - U.S. Customs and Border Protection (CBP);
  - U.S. Immigration and Customs Enforcement (ICE);
  - Transportation Security Administration (TSA); and
  - Federal Law Enforcement Training Center (FLETC).
- The **Emergency Preparedness and Response (EP&R) Directorate** ensures that the Nation is prepared for, and able to recover from, terrorist attacks and natural disasters;
- The **Science and Technology (S&T) Directorate** provides federal, state and local operators with the technology and capabilities needed to protect the Nation from catastrophic terrorist attacks, including threats from weapons of mass destruction; and
- The **Management Directorate** oversees the budget and expenditure of funds, financial management, procurement, human resources, information technology systems, facilities, property, equipment and other material resources, and identifies and tracks performance measures aligned with the Department's mission.



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In addition to the five major directorates, the Department includes other critical components:

- The **U.S. Coast Guard (USCG)** ensures maritime safety, mobility and security, protects our natural marine resources, and provides national defense as one of the five U.S. Armed Services.
- The **U.S. Secret Service (USSS)** protects designated individuals and facilities, provides security for designated events, and investigates violations of laws related to counterfeiting and financial crimes, including computer fraud and computer-based attacks on the Nation's financial, banking and telecommunications infrastructure;
- The **U.S. Citizenship and Immigration Services (USCIS)** promotes citizenship values and provides immigration services to ensure that America continues to welcome visitors and those who seek opportunity within our shores while excluding terrorists and their supporters;
- The **Office of State and Local Government Coordination and Preparedness (SLGCP)** serves as a single point of contact for facilitation and coordination of departmental programs that impact state, local, territorial and tribal governments.
- The **Office of Inspector General (OIG)** serves as an independent and objective inspection, audit and investigative body to promote effectiveness, efficiency and economy in the Department's programs and operations.

## What We Do

The results achieved by the 180,000 men and women of the Department of Homeland Security make our country a better place to live. By ensuring our borders remain open to legitimate travel and trade but closed to terrorists, we are making the vision of a free but secure America a reality. By proactively planning for natural and man-made disasters, we will facilitate a fast recovery should they occur. Our daily activities are important in ensuring that Americans remain safe and secure in the Homeland.

*Below is a sampling of what the men and women of the Department of Homeland Security do on an average day:*

- Review more than 1,000 pieces of intelligence from the intelligence community and law enforcement agencies (IAIP);
- Meet with an average of four industry leaders to discuss new technologies to protect the Homeland (S&T)
- Process more than 1.1 million people entering our country through the Nation's airports and seaports (CBP);
- Intercept more than 19,726 prohibited items, including 5,963 knives, 120 box cutters, four firearms and 1,971 incendiary devices (TSA);
- Screen approximately 1.5 million domestic and international passengers before they board commercial aircraft (TSA);
- Make 217 arrests for immigration-related violations and 41 arrests for customs violations (ICE);
- Naturalize approximately 1,900 new citizens (USCIS);
- Protect 1,000 students in tornado-prone areas by providing their school administrators with information about how to properly construct tornado shelters (EP&R - Federal Emergency Management Agency);
- Conduct 50 port security patrols and maintain more than 90 security zones around key infrastructure in major ports or coastal areas (USCG); and
- Provide law enforcement training for more than 35,000 law enforcement officers and agents from more than 75 partner organizations (FLETC).

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## About the Fiscal Year 2004 *Performance and Accountability Report*

The Department of Homeland Security's *Performance and Accountability Report* for fiscal year 2004 provides financial and performance information that enables the President, Congress and the public to assess the effectiveness of the Department's mission performance and stewardship of resources. Our annual performance-based budget request to Congress and the *Future Years Homeland Security Program* identify the resources needed to effectively and efficiently fulfill our mission to lead the unified national effort to secure America. Throughout the year, the Department managers and executives use the types of information presented in this report to help gauge performance against resources allocated by Congress. Our performance measures are used to monitor our actions and enable executives to make decisions regarding future priorities.

As a new department, we are learning more about the increasingly sophisticated risks and threats to the Nation. We have integrated our performance and financial information to guide us in implementing the most effective ways to combat these risks and threats. We continue to work aggressively to anticipate threats and develop and improve systems and technologies to protect against, counter and neutralize them. As such, this performance information helps us reassess and reprioritize resource requirements toward investments that have a demonstrable impact in mitigating the risks and threats to the Nation. We are continuing to link financial and performance information throughout the Department.

This report satisfies the reporting requirements of the following laws:

- *Federal Managers' Financial Integrity Act of 1982;*
- *Government Performance and Results Act of 1993;*
- *Government Management Reform Act of 1994;*
- *Clinger-Cohen Act of 1996;*
- *Reports Consolidation Act of 2000;*
- *Federal Information Security Management Act of 2002;* and
- *Accountability of Tax Dollars Act of 2002.*

Part I, Management's Discussion and Analysis, provides a concise overview of the entire report. It describes the Department's mission, organization and progress in implementing the strategic plan and the *President's Management Agenda*. It highlights the most important performance and financial results of fiscal year 2004 and summarizes the performance budget for the year. This section also describes the challenges that management faces and the controls and corrective actions that have been put in place to remedy material weaknesses. Also included is the Inspector General's summary of the most important management and performance challenges facing the Department. Challenges identified include:

- Consolidation of the Department's organizational elements into a single, efficient and effective department;
- Integration of the Department's procurements under one comprehensive reporting system that provides detailed and validated data to manage and report on the procurement universe;
- Management of grants to achieve prioritized national infrastructure protection needs, integration with state and local resources based on risks, and post-award administration oversight;
- Continued existence of most financial management material weaknesses and reportable conditions found in the prior fiscal year. New challenges occurred during fiscal year 2004 in financial accounting and internal controls;
- Extensive effort to develop the new Human Capital Management System and the lengthy time to complete staff security clearances;

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- Integration of information systems to create a single infrastructure for effective communication and information;
- Long-term cyber threats and vulnerabilities to the Nation's critical infrastructure still need to be addressed, along with ongoing alignment of the organizational elements' security programs with overall departmental policies and procedures;
- Development of a comprehensive infrastructure threat assessment process and database;
- Border security, which continues to face formidable challenges in securing the Nation's borders;
- Transportation security in airport screening and other modes of transportation, including buses, subways, ferries and light-rail services. Maritime security challenges include restoring the Coast Guard's readiness to perform its multiple missions.

Part II, Financial Information, contains the Department's financial statements and notes. Below are some highlights from fiscal year 2004. The Department:

- Continued the transition from 19 to 10 financial management centers without impairing the fulfillment of our mission. Throughout fiscal year 2004, the accounting business lines previously provided by the departments of Commerce, Defense, Energy, Health and Human Services, Justice and Agriculture, and the General Services Administration were consolidated and are now provided in-house by ICE. This streamlining of financial management functions enables the Department to more readily access its organizational elements' financial data, conduct department-wide financial analyses and make sound financial decisions. We continue to work toward further consolidation of financial management processes and systems, where prudent.
- Developed best-in-class standard operating policies and procedures to strengthen our financial reporting practices and foster financial management excellence throughout the Department's Chief Financial Officer community.
- Conducted a business transformation, as part of our merger and acquisition efforts, by realigning more than 6,000 support services employees (both government and contractor) from the former U.S. Customs Service and the former Immigration and Naturalization Service to support 68,000 employees of CBP, ICE and USCIS.
- Established a Working Capital Fund to pay for agency-wide goods and services, which began operation in fiscal year 2004.
- Spent more than \$647 million in more than 3 million transactions since the bankcard program began in October 1, 2003. Use of these cost-effective payments has increased steadily during fiscal year 2004. As an example, August 2004 purchase cardholders spent more than \$41 million to quickly and easily buy goods and supplies to support the Department's mission.

Part III, Performance Information, contains information concerning the Department's performance relative to each of its goals and an assessment of that information's completeness and reliability. It also provides summaries of key evaluations of departmental programs and highlights the Department's budget. Below are performance highlights from fiscal year 2004. The Department:

- Introduced the Homeland Security Information Network. This computer-based counter-terrorism communications network is connected to all 50 states and 20 major urban areas. It will soon be deployed to five territories, Washington, D.C., and 30 other major urban areas. This program significantly strengthens the two-way flow of real-time threat information to state, local and private-sector partners.
- Implemented the Homeland Security Operations Center. The most comprehensive 24-hour-a-day, seven-day-a-week warning system in the United States, this center includes 35 federal and local law enforcement agencies and intelligence community members in one system.

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- Processed more than 9.4 million foreign visitors as of September 30, 2004. Already the Department's US-VISIT Program has matched more than 905 people against criminal databases, which prevented more than 296 known or suspected criminals from entering the country. More than 968 were matched while applying for visas at Department of State posts overseas.
- Thwarted terrorism and protected citizens by breaking up drug smuggling networks and their assets. In 2004, almost 568,705 pounds of cocaine, 1,080,923 pounds of marijuana and 2,938 pounds of heroin were seized by homeland security entities.
- Exercised the largest commitment to port security operations by the Coast Guard since World War II. The Coast Guard has conducted more than 35,000 port security patrols and 3,500 air patrols, boarded more than 2,500 high-interest vessels, interdicted more than 11,000 illegal migrants, and created and maintained more than 115 Maritime Security Zones.
- Increased airport screener effectiveness by instituting a weekly Threat in the Spotlight training program, supported by the Federal Air Marshal Service Explosives Division, to provide the screener workforce with up-to-date information regarding threat objects and tactics. TSA also deployed simulated weapon and modular bomb set kits to every airport along with detailed protocols for training and testing the screener workforce, used covert testing to expose screeners to new threat scenarios, and conducted the annual recertification of the screeners.
- Intercepted more than 6.7 million prohibited items at airport screening checkpoints, including more than 1.9 million knives, 21,721 box cutters and more than 650 firearms. Since assuming responsibility for security at airports in February 2002, TSA screeners have intercepted more than 16.5 million prohibited items.
- Instituted nearly 100 percent checked baggage airport screening and modernized passenger screening at America's airports, certified installation of hardened cockpit doors on all 6,000 large passenger aircraft and trained the first group of armed pilots to defend the flight decks of passenger planes.
- Launched the Transit and Rail Inspection Pilot Program to determine the feasibility of screening passengers, luggage and carry-on bags for explosives in the rail environment, and initiated the Transportation Worker Identification Program to develop an integrated credential-based, identity management system, including standards, for all transportation workers requiring unescorted access to secure areas of the Nation's transportation system.
- Protected U.S. citizens against electronic and financial crimes by reducing overall losses. Through the Secret Service's network of electronic crimes task forces, it was able to prevent \$150 million in losses attributable to infrastructure investigations.
- Managed 858 reports of suspicious packages, detected 524,547 prohibited items and weapons, responded to and defended against 1,625 demonstrations and disturbances, and issued 61,721 case control numbers for follow-up investigation and response. USCIS's Federal Protective Service responded to 10 million law enforcement calls that resulted in 4,074 arrests.
- Allocated more than \$8 billion as of the end of fiscal year 2004 in overall grant funding for states and territories to enhance the abilities of their first responders to prevent, prepare for and respond to potential terrorist attacks.
- Naturalized 670,000 new American citizens, including more than 8,000 military personnel, since the Department's creation. USCIS served more than 14 million customers via its bilingual National Customer Service Center.

For fiscal year 2004, we established performance goals for each of our programs. To assess the achievement of these goals, we developed quantitative performance measures with targets. These targets were contained in the performance-based budget submitted to Congress. To better assess our performance where information was previously not available, we established baseline targets in fiscal year 2004.

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A summary of our fiscal year 2004 performance against those targets is provided in the following scorecard. We report baselines that were successfully established as Performance Target Met in the graphic below. For some performance goals, the Department has established multiple performance targets.

## Fiscal Year 2004 Performance Scorecard

### Strategic Goal 1 – Awareness

The focus of this strategic goal is to identify and understand threats, assess vulnerabilities, determine potential impacts and disseminate timely information to our homeland security partners and the American public. The performance goals established by the Department to achieve Awareness are provided below.

Organizational Entity	Performance Goal	Performance Target		Improved from FY 2003
		Met	Not Met	
Information Analysis and Infrastructure Protection Directorate (IAIP)	Products are of a high quality and reflect broadest possible view of threats, capabilities and vulnerabilities.	1- Baseline		N/A
	Establish a fully capable Command, Control, Operations and Information Exchange System.	1 - Baseline		N/A
	Increase time efficiency of issuance of information and warnings advisories by 50 percent.	1 - Baseline		N/A
	Reduce “general” warnings, as compared to “at-risk” warnings by 60 percent from 2003 levels.	1		Yes
	Threat-level information on first-tier key assets and critical infrastructure components is available to decision-makers for optimal deployment of assets.	1		N/A
Transportation Security Administration (TSA)	Fully deploy a comprehensive threat-based security management system for use in all modes of transportation, and ensure zero successful attacks against the transportation system as a result of the mishandling or misinterpretation of intelligence information received by the TSA Intelligence Service.	1		N/A
Total		6	0	

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## Strategic Goal 2 – Prevention

The focus of this strategic goal is to detect, deter and mitigate threats to our homeland. The performance goals established by the Department to achieve Prevention are provided below.

Organizational Entity	Performance Goal	Performance Target		Improved from FY 2003
		Met	Not Met	
Federal Law Enforcement Training Center (FLETC)	Ensure FLETC has the facility capacity to meet its law enforcement training requirements.	1 - Baseline		N/A
	Deploy federal law enforcement agents and officers with the knowledge and skills to effectively enforce laws and regulations, protect the Nation and interact with the public in ways that demonstrate respect for individuals and civil liberties.	1 - Baseline		N/A
	Deployment of state and local agents and officers with the knowledge and skills to effectively enforce laws and regulations, protect local communities, and interact with the public in ways that demonstrate respect for individuals and civil liberties.	1 - Baseline		N/A
Transportation Security Administration (TSA)	Ensure the safe, secure and efficient transport of passengers and property via air transportation.	1 - Baseline		N/A
	Develop and prepare for the deployment of technologically advanced systems to identify and eliminate illegally transported explosive devices, and chemical, biological, radiological, nuclear and other weapons.	1 - Baseline		N/A
	Operate as a performance-based organization for improved effectiveness and efficiency.	1 - Baseline		N/A
	TSA will develop and deploy technologically advanced systems for screening air cargo to ensure the safe and secure transport of passengers and property via air transportation.	1		N/A
	Protect the Nation's transportation system by deterring, detecting and defeating 100 percent of attempted hostile acts through the effective deployment of federal law enforcement and inspections personnel.	1		N/A
Border and Transportation Directorate – US-VISIT	Prevent entry of high-threat and inadmissible individuals through improved accuracy and timeliness of access to data in determining traveler's admissibility.	1 - Baseline		N/A
U.S. Coast Guard (USCG)	By 2009, USCG will reduce the number of collisions, allisions and groundings by 26 percent, to 1,535 (five-year average).	1		Yes
	By 2009, USCG will show a Navy Status Of Resources and Training System (SORTS) readiness level of 2 or better for all assets that may be used by combatant commanders in wartime. The Navy defines SORTS category level 2 as "Unit possesses the resources and is trained to undertake most of the wartime mission(s) for which it is organized or designed." These readiness levels will indicate that USCG is fully prepared to provide core competencies such as Maritime Interception Operations, Port Operations Security and Defense, Military Environmental Response Operations, Peacetime Engagement, Coastal Sea Control Operations and Theater Security Cooperation when requested by the Department of Defense.		1	No (Same Level)

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Organizational Entity	Performance Goal	Performance Target		Improved from FY 2003
		Met	Not Met	
U.S. Coast Guard (USCG)	By 2009, USCG will reduce the flow of illegal drugs by removing 30 percent of drug flow from maritime sources.	1- Estimated		N/A <sup>1</sup>
	By 2009, USCG will maintain operational channels for navigation, limiting channel closures to two days (during average winters) and eight days (during severe winters).		1	No
	By 2009, USCG will reduce the five-year average number of passenger and maritime worker fatalities and injuries, and recreational boating fatalities to 1,339 or less.	1- Estimated		Yes <sup>2</sup>
	By 2009, USCG will reduce the flow of undocumented migrants entering the United States by interdicting or deterring 95 percent of undocumented migrants attempting to enter the United States through maritime routes.	1		Yes
	To reduce the security risk due to terrorism in the maritime domain. (This is a new goal for which measure is in development.)		1 - Not Available	N/A
U.S. Customs and Border Protection (CBP)	Protect the Homeland from acts of terrorism and reduce its vulnerability to the threat of international terrorists. Move legitimate cargo and people efficiently while safeguarding the border and the security of the United States.	9	5  1 - Not Available	4 - No (Same Level) 6 - No 1 - N/A 4 - Yes
	Strengthen national security at and between ports of entry to prevent the illegal entry of people and contraband into the United States.	1		Yes
	Prevent the entry of terrorists, instruments of terror and contraband in shipping containers, while facilitating the legal flow of goods by pushing the Nation's zone of security beyond our physical borders to 100 percent of targeted ports, through international partnerships.	1		N/A
	Move legitimate cargo efficiently while safeguarding the border and the security of the United States.	1		Yes
	Protect the Homeland from acts of terrorism and reduce its vulnerability to the threat of international terrorists. Move legitimate cargo and people efficiently while safeguarding the border and the security of the United States. Contribute to a safer America by prohibiting the introduction of illicit contraband into the United States.	2		1 - Yes  1- No

<sup>1</sup> To more accurately reflect Coast Guard counter-drug efforts and results, beginning in fiscal year 2004, USCG transitioned to a Cocaine Removal Rate as it encompasses both cocaine removed from the market as well as cocaine seized. This measure now includes those drugs confirmed as jettisoned, sunk or otherwise destroyed, whereas the fiscal year 2003 performance actual represents only drugs that were seized.

<sup>2</sup> While final performance actuals for fiscal year 2004 performance will not be available until July 2005, USCG estimates that it will meet its targets for achieving this performance goal.

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Organizational Entity	Performance Goal	Performance Target		Improved from FY 2003
		Met	Not Met	
U.S. Customs and Border Protection (CBP)	By 2009, improve risk targeting of goods imported through the continued roll out of the Automated Commercial Environment. Meet or exceed project cost schedules. Improve application systems availability and operational efficiency to users. Maintain an unqualified opinion on the audit of financial systems. Increase the use of e-commerce throughout financial processes. Increase the delivery of training through distance learning.		1	No
U.S. Immigration and Customs Enforcement (ICE)	Federal Air Marshal Service	1		Classified
	Deny the use of airspace for implementing acts of terrorism against critical infrastructure, personnel and institutions within the United States and its territories.		1	No
	Remove 100 percent of removable aliens.	1 - Estimated		Yes
	Protect the American people, property and infrastructure from foreign terrorists, criminals and other people and organizations who threaten the United States, by increasing the percentage of cases that have an enforcement consequence.		1	No
Total		29	12	

## Strategic Goal 3 – Protection

The focus of this strategic goal is to safeguard our people and their freedoms, critical infrastructure, property and the economy of our nation from acts of terrorism, natural disasters and other emergencies. The performance goals established by the Department to achieve Protection are provided below.

Organizational Entity	Performance Goal	Performance Target		Improved from FY 2003
		Met	Not Met	
Emergency Preparedness and Response (EPR)	Attain all annual targets in the areas of potential property losses, disaster and other costs avoided; improve safety of the U.S. population through availability of accurate flood risk data in Geographic Information System format; and number of communities taking or increasing action to reduce their risk of natural or man-made disasters.	1		Yes
	By fiscal year 2009, all Federal Executive Branch Departments and Agencies will attain and maintain a fully operational Continuity of Operations (COOP) capability to guarantee the survival of an enduring constitutional government and 75 percent of states will have established COOP plans.		1	N/A
	By fiscal year 2009, 100 percent of jurisdictions (state, tribal and county) complete self-assessments (validated through random independent verification) using mutually agreed upon baseline performance standards for responding to and recovering from all hazards, including terrorist incidents and weapons of mass destruction.		1	Yes



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Organizational Entity	Performance Goal	Performance Target		Improved from FY 2003
		Met	Not Met	
Information Analysis and Infrastructure Protection (IAIP)	In partnership with industry and government, ensure immediate interoperable and assured National Security/Emergency Preparedness converged telecommunications in all situations.	1 - Baseline		N/A
	75 percent of national strategies are implemented within year of issuance of plan in which they are outlined.	1 - Baseline		N/A
	Recommended protective actions implemented for 65 percent of first-tier priority critical infrastructure components or key assets. (Remediation and Protective Actions)	1 - Estimated		N/A
	Recommended protective actions implemented for 65 percent of first-tier priority critical infrastructure components or key assets. (Outreach and Partnership)	1 - Estimated		N/A
Federal Law Enforcement Training Center (FLETC)	To deploy international agents and officers with the knowledge and skills to fulfill their law enforcement responsibility and to help foreign nations fight terrorism.	1 - Baseline		N/A
Management Directorate	Operating entities of the Department and other federal agencies are promptly reimbursed for authorized unforeseen expenses arising from the prevention of or response to terrorist attacks.	1 - Baseline		N/A
State and Local Government Coordination and Preparedness (SLGCP)	Enhance the ability of state and local jurisdictions to develop, plan and implement a comprehensive program for weapons of mass destruction preparedness.	1 - Baseline		N/A
	By fiscal year 2009, fire departments of all types (paid, volunteer and combination) and fire departments serving all communities (rural, urban and suburban) will be better trained and equipped to respond to fires and other disasters for protection of the public and themselves from injury, loss of life and property.	1 - Baseline		N/A
	By fiscal year 2009, under the Top Officials (TOPOFF) Series, state and local homeland security agencies will have had the opportunity to test the capacity of government agencies to prevent and/or respond to and recover from multiple large-scale attacks as demonstrated by successful achievement of exercise objectives that were met. By fiscal year 2009, under the state and local exercise grant program: 1) 50 percent of jurisdictions with populations of more than 500,000 will have exercised SLGCP's common suite of combating terrorism (CT) scenarios and will have demonstrated performance within the expected range for at least 70 percent of critical homeland security tasks; 2) 25 percent of jurisdictions with populations of more than 100,000 will have exercised SLGCP's common suite of CT scenarios and will have demonstrated performance within the expected range for at least 60 percent of critical homeland security tasks; 3) 10 percent of jurisdictions with populations of more than 500,000 will have exercised SLGCP's common suite of CT scenarios and will have demonstrated performance within the expected range for at least 50 percent of critical homeland security tasks; and 4) jurisdictions that participated in exercises will have implemented at least 50 percent of the actions specified in the Jurisdictional Improvement Plans developed to address recommendations from the After Action Report.	1 - Baseline <sup>3</sup>		N/A

# Executive Summary

Organizational Entity	Performance Goal	Performance Target		Improved from FY 2003
		Met	Not Met	
State and Local Government Coordination and Preparedness (SLGCP)	By 2009, all state and local jurisdictions will have the capability to prevent, deter, respond to and recover from acts of terrorism. Refine SLGCP's capability to continuously identify and address emerging training needs. Expand cadre of subject matter experts.	1 1 - Baseline <sup>3</sup>		N/A
	At least 90 percent of the participating urban areas will have demonstrated performance within the expected range for at least 90 percent of critical tasks.	1 - Baseline <sup>3</sup>		N/A
	By 2009, SLGCP will have implemented at least 75 percent of accepted program-related recommendations from program evaluations, and state and local jurisdictions will have implemented at least 50 percent of accepted recommendations from evaluations of exercises.	1 - Baseline <sup>3</sup>		N/A
U.S. Coast Guard (USCG)	By 2009, USCG will maintain a 97 percent observed domestic compliance rate by commercial fishermen.		1	No
	By 2009, USCG will reduce the five-year average number of chemical discharge incidents and oil spills >100 gallons to 35 or less per 100 million tons shipped.	1		Yes
	By 2009, USCG will limit foreign fishing vessel incursions into the U.S. Exclusive Economic Zone to 195 or fewer incursions.		1	No
U.S. Immigration and Customs Enforcement (ICE)	The Federal Protective Service's overall goal is to reduce the vulnerability to federal facilities and tenants by providing a safe secure environment to federal tenants and the visiting public, while maintaining our ultimate responsibility to the taxpayers. The long-term goal is to achieve a 40 percent overall measurable reduction to the threat of federal facilities.	1		Yes
U.S. Secret Service (USSS)	Protect visiting world leaders.	1		No (Same Level)
	Reduce losses to the public attributable to electronic crimes and crimes under the jurisdiction of the USSS that threaten the integrity and reliability of the critical infrastructure of the country.	1 - Baseline		N/A
	Reduce threats posed by global terrorists and other adversaries.		1 <sup>4</sup>	No
	Protect our presidential and vice presidential candidates and nominees.	1		N/A <sup>5</sup>
	Protect the Nation's leaders and other protectees.	1		No (Same Level)
	Reduce losses to the public attributable to counterfeit currency, other financial crimes, and identity theft crimes that are under the jurisdiction of the USSS, which threaten the integrity of our currency and the reliability of financial payment systems worldwide.	2		1 - No 1 - Yes
<b>Total</b>		<b>23</b>	<b>5</b>	

<sup>3</sup> Scenarios and metrics are being developed.

<sup>4</sup> The total number of intelligence cases closed represents an estimate of workload as opposed to a target. The Department completed all intelligence cases referred during the fiscal year in compliance with the service's critically self-imposed deadlines on intelligence cases.

<sup>5</sup> The Department met its target of providing incident-free protection for the presidential and vice presidential candidates and nominees. USSS was fully engaged with campaign 2004 candidate protection and preparation for the presidential and vice presidential debates. This measure is only applicable to campaign years; therefore, actuals were not available for fiscal year 2003.

# Executive Summary

## Strategic Goal 4 – Response

The focus of this strategic goal is to lead, manage and coordinate the national response to acts of terrorism, natural disasters and other emergencies. The performance goals established by the Department to achieve Response are provided below.

Organizational Entity	Performance Goal	Performance Target		Improved from FY 2003
		Met	Not Met	
Emergency Preparedness and Response (EPR)	By fiscal year 2009, maximum response time for emergency response teams to arrive on scene is reduced to no more than 12 hours.	1		Yes
U.S. Coast Guard (USCG)	By 2009, the USCG will save 88 percent of mariners in imminent danger.	1		No
Total		2	0	

## Strategic Goal 5 – Recovery

The focus of this strategic goal is to lead national, state, local and private-sector efforts to restore services and rebuild communities after acts of terrorism, natural disasters and other emergencies. The performance goals established by the Department to achieve Recovery are provided below.

Organizational Entity	Performance Goal	Performance Target		Improved from FY 2003
		Met	Not Met	
Emergency Preparedness and Response (EPR)	By fiscal year 2009, provide recovery assistance at 100 percent of the fiscal year 2009 target level for performance in non-catastrophic disasters.		1 - Baseline	N/A
Total			1	

## Strategic Goal 6 – Service

The focus of this strategic goal is to serve the public effectively by facilitating lawful trade, travel and immigration. The performance goals established by the Department to achieve Service are provided below.

Organizational Entity	Performance Goal	Performance Target		Improved from FY 2003
		Met	Not Met	
U.S. Citizenship and Immigration Services (USCIS)	Adjudicate asylum and refugee applications in a timely, accurate, consistent and professional manner; and prevent ineligible individuals from receiving humanitarian benefits.	1	1	1 - No 1 - Yes
	Eliminate the immigration benefits application backlog and achieve a six-month cycle time standard by fiscal year 2006.	1 - Baseline		N/A
	The Citizenship and Naturalization Services program will provide citizenship and naturalization information and benefits in a timely, accurate, consistent, courteous and professional manner; and prevent ineligible individuals from receiving naturalization benefits.	1		Yes

# Executive Summary

Organizational Entity	Performance Goal	Performance Target		Improved from FY 2003
		Met	Not Met	
U.S. Citizenship and Immigration Services (USCIS)	Provide legal permanent residency information and benefits in a timely, accurate, consistent, courteous and professional manner; and prevent ineligible individuals from receiving immigration benefits.	1		Yes
	Provide temporary residency information and benefits in a timely, accurate, consistent, courteous and professional manner; and prevent ineligible individuals from receiving non-immigrant benefits.	1		Yes
Total		5	1	

## Strategic Goal 7 – Organizational Excellence

The focus of this strategic goal is to value our most important resource — our people. We will create a culture that promotes a common identity, innovation, mutual respect, accountability and teamwork to achieve efficiencies, effectiveness and operational synergies. The performance goals established by the Department to achieve Organizational Excellence are provided below.

Organizational Entity	Performance Goal	Performance Target		Improved from FY 2003
		Met	Not Met	
Federal Law Enforcement Training Center (FLETC)	Ensure law enforcement training programs, law enforcement instructors and facilities are accredited in accordance with established law enforcement standards.	1		Yes
Management Directorate	The Department's organizational elements receive world-class policy and low-cost management support services that enable them to efficiently achieve or exceed the Department's strategic goals and meet the standards of the <i>President's Management Agenda</i> .	1 - Baseline		N/A
	The Department's organizational elements and stakeholders have world-class information technology leadership and guidance enabling them to efficiently and effectively achieve their vision, mission and goals.	1 - Baseline		N/A
Science and Technology (S&T)	Provide public safety agencies with central coordination, leadership and guidance to help them achieve short-term interoperability and long-term compatibility of their radio networks across jurisdictions and disciplines.		1 - Baseline	N/A
Total		3	1	

# Executive Summary

## Implementing the *President's Management Agenda*

The *President's Management Agenda* was launched in August 2001 as a strategy for improving the management and performance of the Federal Government. It focuses on the areas where deficiencies were most apparent and where the government could begin to deliver concrete, measurable results. The agenda includes five government-wide initiatives: Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanding Electronic Government, and Budget and Performance Integration. In addition to these initiatives, there are 10 program-specific initiatives that apply to a subset of federal agencies. Of these, the Department participates in two: the Better Research and Development Investment Criteria and Real Property. The Office of Management and Budget regularly assesses all federal agencies' implementation of the *President's Management Agenda*, issuing an Executive Branch Management Scorecard rating of green, yellow or red for both status and progress on each initiative. The scorecard the Department received for the period ending September 30, 2004, rated the Department's status yellow on two of the seven initiatives and red on the remaining five, an improvement in one of the categories from the previous year's scorecard. Progress scores were five green and two yellow; also an improvement from the previous year's scorecard.

Status scores may be misleading to those unfamiliar with the very high standards established by the Administration. Of importance, the Department received a baseline rating of red in all initiatives when it was established in 2003. It should be noted that the ratings presented for status are not an indicator of performance, but rather the "newness" of the Department. While the statuses of some of our initiatives are red, the Department continues to demonstrate progress in implementing most government-wide initiatives and all program-specific initiatives.

A breakdown by initiative is indicated in the table below.



Under each standard, an agency is "green" if it meets all of the standards for success, "yellow" if it has achieved some but not all of the criteria and "red" if it has even one of any number of serious flaws.

# Executive Summary

In fiscal year 2004, the Department achieved results in each of the five critical management areas: Human Capital, Competitive Sourcing, e-Government, Improved Financial Performance, and Budget and Performance Integration. Of importance, in the fourth quarter of fiscal year 2004, the Department's status for Budget and Performance Integration moved from red to yellow. Our successes in each of the areas are summarized in Part I, Management's Discussion and Analysis.

## Next Steps

We will be a focused, 21<sup>st</sup> century department that coordinates the resources and efforts of the Federal Government against terrorism. We will break down the organizational impediments that have hindered past efforts. We will prevent, protect and respond to terrorist attacks on the American way of life.

While we will continue to prepare for natural disasters and other incidents, the key focus of homeland security planning, intelligence and information-gathering policies and operations will be terrorist threats to the U.S. population, transportation systems and critical infrastructure. We will provide efficient and cost-effective capabilities, build capacities on a national scale and secure domestic and international support in each of these areas.

We will continue to:

- **Share Information** – Information sharing must be ubiquitous throughout the federal, state, local, tribal, major city and private-sector environments in which the Department interacts. Our goal is to effectively and efficiently share information to support homeland security efforts with our partners.
- **Protect Our Infrastructure** – The Department is the focal point for national infrastructure protection efforts across each of the critical infrastructure sectors: physical, human and cyber. The Department will coordinate implementation of a prioritized, integrated national plan to protect both our physical and cyber infrastructure and reduce vulnerabilities.
- **Develop Cutting-Edge Technologies** – Developing new technologies is a key strategy in the Nation's war on terrorism. The Department will focus the vast scientific and technological resources of the Nation to develop new technologies designed to prevent or mitigate the effects of terrorism against the United States or its allies.
- **Manage for Results** – We will be a 21<sup>st</sup> century department, a consolidated and focused entity that integrates resources and efforts across the Federal Government – breaking down organizational barriers that have hindered efforts in the past – to prevent, protect against and respond to terrorist attacks that threaten the American way of life.



# Management's Discussion and Analysis

Part I

# Management's Discussion and Analysis

## The Department at a Glance



### Vision

*Preserving our freedoms, protecting America ... we secure our homeland.*

### History

Guided by the *National Strategy for Homeland Security* and the *Homeland Security Act of 2002*, the President signed an Executive Order in January 2003 establishing the Nation's 15<sup>th</sup> Cabinet department, the Department of Homeland Security. The purpose of the new department, which incorporated 180,000 employees from 22 agencies, is to provide the unifying core for the vast national network of organizations and institutions involved in securing the Nation from terrorist threats and natural disasters. In less than two years of operation, the Department has achieved many important operational and policy objectives.

### Mission

We will lead the unified national effort to secure America. We will prevent and deter terrorist attacks and protect against and respond to threats and hazards to the Nation. We will ensure safe and secure borders, welcome lawful immigrants and visitors, and promote the free flow of commerce.

### Strategic Goals

Seven strategic goals describe how we accomplish our mission:

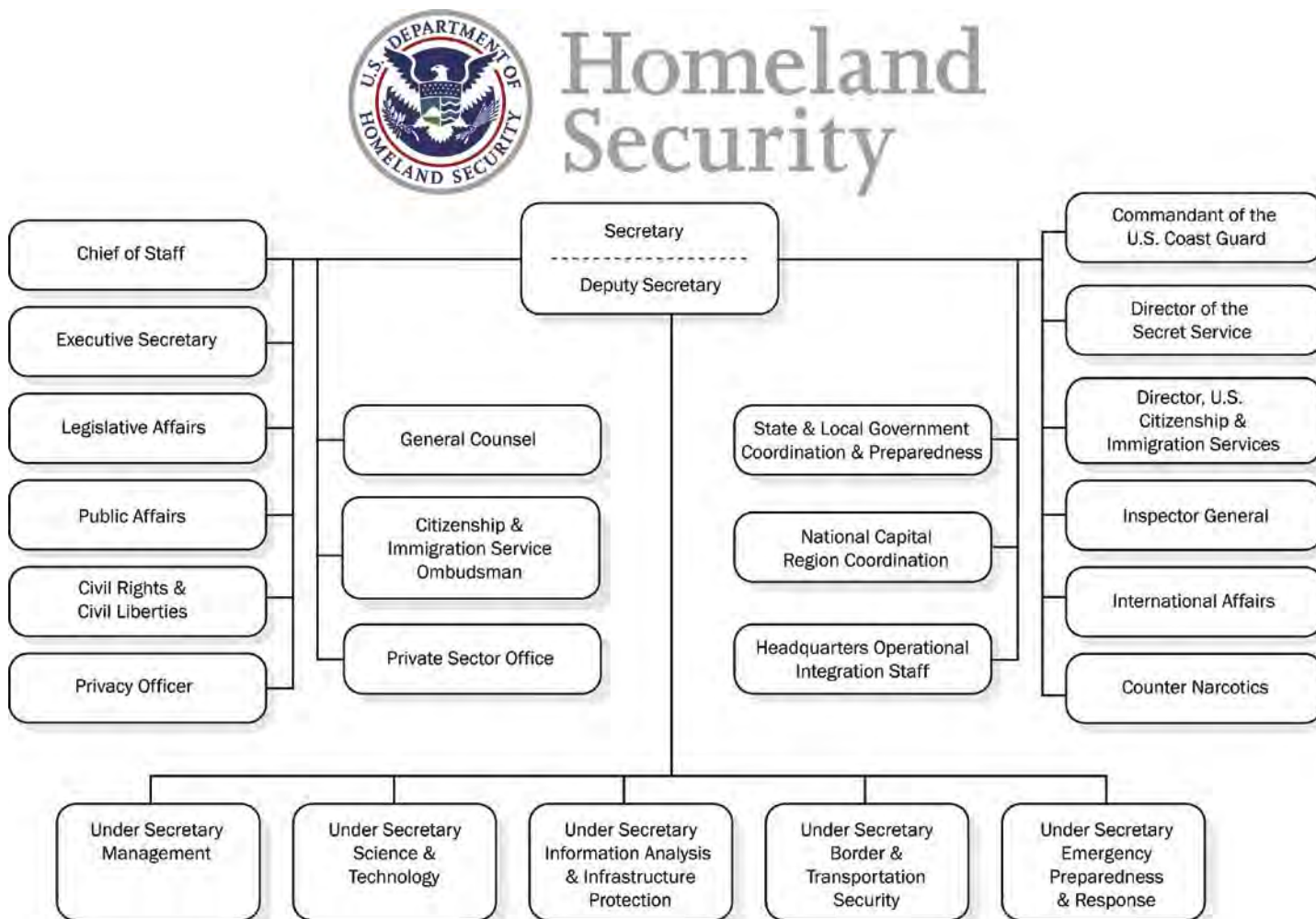
- **Awareness** — Identify and understand threats, assess vulnerabilities, determine potential impacts and disseminate timely information to our homeland security partners and the American public.
- **Prevention** — Detect, deter and mitigate threats to our homeland.
- **Protection** — Safeguard our people and their freedoms, critical infrastructure, property and the economy of our nation from acts of terrorism, natural disasters or other emergencies.
- **Response** — Lead, manage and coordinate the national response to acts of terrorism, natural disasters or other emergencies.
- **Recovery** — Lead national, state, local and private-sector efforts to restore services and rebuild communities after acts of terrorism, natural disasters or other emergencies.
- **Service** — Serve the public effectively by facilitating lawful trade, travel and immigration.
- **Organizational Excellence** — Value our most important resource, our people. Create a culture that promotes a common identity, innovation, mutual respect, accountability and teamwork to achieve efficiencies, effectiveness and operational synergies.



# Management's Discussion and Analysis

## Organization

To accomplish our goals, we are organized as follows:



To accomplish its mission, the Department is organized into five directorates:

1. The **Information Analysis and Infrastructure Protection (IAIP) Directorate** identifies and assesses a broad range of intelligence information concerning threats to the Homeland, issues timely warnings and takes appropriate preventive and protective action. The Directorate has two essential functions:
  - **Information Analysis** provides actionable intelligence essential for preventing acts of terrorism and, with timely and thorough analysis and dissemination of information about terrorists and their activities, improves the Federal Government's ability to disrupt and prevent terrorist acts and to provide useful warning to state and local governments, the private sector and our citizens; and

# Management's Discussion and Analysis

- **Infrastructure Protection** coordinates national efforts to secure America's critical infrastructure, including vulnerability assessments, strategic planning efforts and exercises. Protecting America's critical infrastructure is the shared responsibility of federal, state and local governments, in active partnership with the private sector, which owns approximately 85 percent of the Nation's critical infrastructure.
2. The **Border and Transportation Security (BTS) Directorate** ensures the security of the Nation's borders and transportation systems. Its first priority is to prevent the entry of terrorists and the instruments of terrorism while simultaneously ensuring the efficient flow of lawful traffic and commerce. BTS manages and coordinates port-of-entry activities and leads efforts to create borders that are more secure as a result of better intelligence, coordinated national efforts and unprecedented international cooperation against terrorists, the instruments of terrorism and other international threats. BTS includes the following organizational elements:
    - The **U.S. Customs and Border Protection (CBP)** provides security at America's borders and ports of entry as well as extends our zone of security beyond our physical borders, ensuring that American borders are the last line of defense, not the first. CBP is also responsible for apprehending individuals attempting to enter the United States illegally, stemming the flow of illegal drugs and other contraband; protecting our agricultural and economic interests from harmful pests and diseases; protecting American businesses from theft of intellectual property; regulating and facilitating international trade; collecting import duties; and enforcing U.S. trade laws.
    - The **U.S. Immigration and Customs Enforcement (ICE)**, the largest investigative arm of the Department, enforces federal immigration, customs and air security laws. ICE's primary mission is to detect vulnerabilities and prevent violations that threaten national security. ICE works to protect the United States and its people by deterring, interdicting and investigating threats arising from the movement of people and goods into and out of the United States, and by policing and securing federal facilities across the Nation.
    - The **Transportation Security Administration (TSA)** protects the Nation's transportation systems to ensure freedom of movement for people and commerce. TSA will continuously set the standard for excellence in transportation security through its people, processes and technologies.
    - The **Federal Law Enforcement Training Center (FLETC)**, the Federal Government's leader for and provider of world-class law enforcement training, prepares new and experienced law enforcement professionals to fulfill their responsibilities safely and at the highest level of proficiency. The Center provides training in the most cost-effective manner.
  3. The **Emergency Preparedness and Response (EP&R) Directorate** ensures that the Nation is prepared for, and able to recover from, terrorist attacks and natural disasters. The Directorate provides domestic disaster preparedness training and coordinates government disaster response. The core of emergency preparedness includes the Federal Emergency Management Agency (FEMA), which is responsible for reducing the loss of life and property and protecting the Nation's institutions from all types of hazards through a comprehensive, emergency management program of preparedness, prevention, response and recovery.
  4. The **Science and Technology (S&T) Directorate** provides federal, state and local operators with the technology and capabilities needed to protect the Nation from catastrophic terrorist attacks, including threats from weapons of mass destruction. S&T will develop and deploy state-of-the-art, high-performing, low-operating-cost systems to detect and rapidly mitigate the consequences of terrorist attacks, including those that may use chemical, biological, radiological and nuclear materials.
  5. The **Management Directorate** oversees the budget; appropriations; expenditure of funds; accounting and finance; procurement; human resources and personnel; information technology systems; facilities, property, equipment and other

# Management's Discussion and Analysis

material resources; program performance planning; and identification and tracking of performance measures aligned with the Department's mission. The Chief Financial Officer, Chief Information Officer, Chief Human Capital Officer, Chief Procurement Officer and the Chief of Administrative Services report to the Undersecretary for Management as allowed by the *Homeland Security Act of 2002*.

In addition to the five major directorates, the Department includes other critical components:

The **U.S. Coast Guard (USCG)** ensures maritime safety, mobility and security, protects our natural marine resources and provides national defense as one of the five U.S. Armed Services. Its mission is to protect the public, the environment and U.S. economic interests in the Nation's ports and waterways, along the coast, on international waters, or in any maritime region as required to support our national security. The USCG also prevents maritime terrorist attacks, halts the flow of illegal drugs and contraband, prevents individuals from entering the United States illegally, and prevents illegal incursion in our Exclusive Economic Zone. Upon declaration of war, or when the President so directs, USCG will operate as an element of the Department of Defense, consistent with existing law.

The **U.S. Secret Service (USSS)** protects the President and Vice President, their families, heads of state and other designated individuals; investigates threats against these individuals; protects designated buildings within Washington, D.C.; and plans and implements security for designated national special security events. USSS also investigates violations of laws relating to counterfeiting and financial crimes, including computer fraud and computer-based attacks on the Nation's financial, banking and telecommunications infrastructure.

The **U.S. Citizenship and Immigration Services (USCIS)** directs the Nation's immigration benefit system and promotes citizenship values by providing immigration services such as immigrant and nonimmigrant sponsorship; adjustment of status; work authorization and other permits; naturalization of qualified applicants for U.S. citizenship; and asylum or refugee processing. USCIS makes certain that America continues to welcome visitors and those who seek opportunity within our shores while excluding terrorists and their supporters.

The **Office of State and Local Government Coordination and Preparedness (SLGCP)** serves as a single point of contact for facilitation and coordination of departmental programs that impact state, local, territorial and tribal governments. The Department has brought together many organizations with a long history of interaction with, and support to, state, local, territorial and tribal government organizations and associations, and the office is working hard to consolidate and coordinate that support. On March 26, 2004, the Secretary, under the statutory authority for reorganization contained in the *Homeland Security Act of 2002*, consolidated the Office for Domestic Preparedness and the Office of State and Local Government Coordination. The Office facilitates the coordination of department-wide programs that impact state, local, territorial and tribal governments; serves as the primary point of contact within the Department for exchanging information with state, local, territorial and tribal homeland security personnel; identifies homeland security-related activities, best practices and processes that are most efficiently accomplished at the federal, state, local or regional levels; and applies this information to ensure that opportunities for improvement are provided to our state, territorial, tribal and local counterparts.

The **Office of Inspector General (OIG)** serves as an independent and objective inspection, audit and investigative body to promote effectiveness, efficiency and economy in the Department's programs and operations. OIG seeks to prevent and detect fraud, abuse, mismanagement and waste.

## Implementing the *President's Management Agenda*

The *President's Management Agenda* was launched in August 2001 as a strategy for improving the management and performance of the Federal Government. It focuses on the areas where deficiencies were most apparent and where the government could begin to deliver concrete, measurable results. The *President's Management Agenda* includes five government-wide initiatives and two additional initiatives that apply specifically to the Department of Homeland Security. The *President's Management Agenda* has been embraced by the Department of Homeland Security to refine our disciplines to focus on results and make them effective and enduring. The five key areas are:

- **Strategic Management of Human Capital** – having processes in place to ensure the right person is in the right job, at the right time, and is not only performing, but performing well;
- **Competitive Sourcing** – regularly examining commercial activities performed by the government to determine whether it is more efficient to obtain such services from federal employees or from the private sector;
- **Improved Financial Performance** – accurately accounting for the taxpayers' money and giving managers timely and accurate program cost information to inform management decisions and control costs;
- **Expanded Electronic Government** – ensuring that the Federal Government investment in information technology significantly improves the government's ability to serve citizens, and that information technology systems are secure and delivered on time and on budget; and
- **Budget and Performance Integration** – ensuring that performance is routinely considered in funding and management decisions and those programs achieve expected results and work toward continual improvement. For each initiative, the *President's Management Agenda* established clear, government-wide goals or standards for success.

The two additional initiatives that apply to the Department are:

- **Better Research and Development Investment Criteria** – effectively allocating and prioritizing the Federal Government's research and development investments to address homeland security challenges; and
- **Real Property** – assuring that the Federal Government's real property assets are available; of the right size and type; safe, secure and sustainable; able to provide quality workspaces; affordable; and operate efficiently and effectively.

# Management's Discussion and Analysis

The Office of Management and Budget (OMB) has rated the Department's performance in each of the five critical areas and its two additional initiatives, as shown below.



Under each standard, an agency is “green” if it meets all of the standards for success, “yellow” if it has achieved some but not all of the criteria and “red” if it has even one of any number of serious flaws.

The Department measures its internal progress through self-assessments by organizational element against established goals. This self-assessment process is intended to closely mirror the government-wide focus on strengthening management controls in each of the established management areas. This tool has proved invaluable in allowing departmental leadership to assess the progress the Department has made in merging and integrating its organizational elements.

In fiscal year 2004, the Department achieved results in each of the five critical management areas: Human Capital, Competitive Sourcing, Electronic Government, Improved Financial Performance, and Budget and Performance Integration. Of importance, in the fourth quarter of fiscal year 2004, the Department's status for Budget and Performance Integration moved from red to yellow. Our successes in each of the areas are summarized below.

## Enhanced Strategic Management of Human Capital

The Department is committed to ensuring its workforce is diverse and high performing. As part of its Human Resources Management System design and its *Human Capital Plan*, the Department will institute an aggressive recruitment campaign to attract a diverse pool of applicants for positions at all levels. The Department recognizes that identification and removal of barriers to a free and open workplace competition are essential to meeting this goal.

The Department proposed a new performance-based and mission-oriented Human Resources Management System. In one year's time, we assembled a design team comprised of managers and employees, human resources experts from the

# Management's Discussion and Analysis

Department and Office of Personnel Management, and representatives from the agency's three largest labor unions. These team members studied and prepared options for transforming the agency's Human Resources Management System and finalized the policy to align with the unique mission of the Department. To obtain the diverse views of the Department's employees, the design team held a series of town hall meetings and conducted 54 focus group sessions across the United States.

The Department's policies regarding pay, performance, classification, labor relations, adverse actions and appeals enable managers to act swiftly and decisively in response to mission needs. The Department's proposed plan recognizes and rewards performance to attract and maintain a highly skilled and motivated workforce, while ensuring due process and protecting basic employee rights. In addition, the Department is especially proud of the accomplishments listed below. During fiscal year 2004, the Department:

- **Streamlined Operations** — The creation of the Department led to new structures that reinforce the mission of the organization. Establishing the U.S. Citizenship and Immigration Service (USCIS) resulted in a new organizational structure for approximately 9,000 employees. Within U.S. Customs and Border Protection (CBP), the Office of Field Operations aligned immigration, agriculture and customs inspectors within its existing overall structure. This was particularly important in implementing the One Face at the Border Initiative. Likewise, there were major organizational changes in establishing U.S. Immigration and Customs Enforcement (ICE). This ensured that the right people were realigned to the new organizations and that they were paid correctly.
- **Realigned Occupational Categories** — New occupations were created as a result of the Department's establishment to reflect the new roles and responsibilities assumed by employees to protect the Nation. Many of these occupations integrated the work of multiple positions, reducing duplication and enhancing effectiveness. For example, a new Criminal Investigator (Special Agent) occupation was created within ICE. This occupation integrates the functions of the Immigration and Naturalization Service and Customs Service Investigators and affects more than 5,700 Agents. The establishment of the CBP Protection Officer occupation unified and integrated the work of approximately 18,000 Inspectors who came from the Customs Service, the Immigration and Naturalization Service and the Department of Agriculture. In addition, the CBP Agriculture Inspector occupation was established to inspect agricultural and related goods entering the United States. In July 2004, a single overtime and premium pay system was implemented for these occupations.
- **Implemented New Approaches to Delivering Human Resources Services** — Since the Department was established, 22 separate human resources offices have been consolidated to seven. Two delivery models are being used — the traditional human resources office and a shared services approach. The first step in establishing shared services was to consolidate resources through a single chain of command, which aligned employees in more than 50 locations to one office. As an example of the shared services approach, rather than creating three separate human resources offices, ICE and USCIS now receive services from CBP's human resources office.
- **Aligned Individual Performance to Departmental Goals** — The Department established the personal performance plans of senior executives and senior managers to support our strategic goals and objectives. The Department initiated a performance appraisal system to link the performance plans of all employees to agency and departmental goals and objectives. These performance plans are used to establish compensation levels for employees, including bonuses.

## Increased Competitive Sourcing

The Department is dedicated to delivering the best services for the best value to the American people. This requires managers and employees to be focused on the Department's mission and committed to protecting the Homeland by using all of our available resources in the most efficient manner. It means bringing to bear the many tools and the best mix of in-house, contract and reimbursable expertise to find the most effective method for addressing ongoing and emerging requirements. Whether it is

# Management's Discussion and Analysis

to inspect cargo, agriculture products and travelers or to secure our transportation and other critical infrastructure systems, the Department is committed to becoming a modern world-class provider of customer service, seeking the maximum value for each and every available tax dollar. The Department will continue to focus on those commercial activities that have never undergone the dynamics of competition. We also expect to provide increased opportunities for submitting public offers for contracted work.

The process to ensure that the Department is providing the best value from able services begins with the *Federal Activities Inventory Reform Act* inventories of commercial and inherently governmental activities. Commercial activities that could be performed through a service contract or reimbursable agreement, but have never before been subjected to the dynamics of competition, have been identified and, in some cases, scheduled for full and open competition under the provisions of *OMB Circular A-76*. *OMB Circular A-76* establishes a rigorous analytic approach to the comparison of public and private-sector alternatives, which include the development of a formal solicitation, performance quality measures, oversight inspection requirements and the evaluation of full cost to taxpayers. This approach opens the possibility of performing commercial work to a wider array of participants, including in-house federal employees; other federal, state or local agencies; and small and large businesses. It promotes innovation and accountability and serves to focus managers on core mission requirements, helping to ensure taxpayers receive maximum value. During fiscal year 2004, the Department:

- **Established Cross-Functional Commodity Councils** — These councils were formed to create strategies for acquiring goods and services by contract to achieve cost savings and performance improvements. The councils cover a wide range of requirements from boats to information technology infrastructure. For example, accrued savings in excess of \$1 million are expected from the consolidation of handgun testing requirements alone. Combining office supply needs is expected to result in savings of 55 percent off existing retail price arrangements.
- **Utilized Department of Defense's Electronic Mall Program** — This enables the Department to participate in one of the largest existing government-to-business exchanges. Department employees can access 383 commercial catalogs containing more than 12 million items and a total of 5.5 million National Stock Numbers from Defense Supply Centers and the General Services Administration, permitting the efficient means for the Department to affordably acquire the goods and services it needs to perform its mission.
- **Negotiated Enterprise Licenses** — The Department established enterprise licenses with Microsoft, Oracle and Autonomy, resulting in estimated savings of \$96 million over five years. Several more licenses are being negotiated with suppliers in information security, business intelligence and technical systems management.
- **Initiated Five Public/Private Competitions** — We are competing the work of more than 1,500 full-time equivalent employees (17 percent of the 2003 *Federal Activities Inventory Reform Act* inventory available for competition) among the private sector and government organizations. This includes the second largest competition ever attempted by a civilian agency. These studies are scheduled for completion during fiscal year 2005, well within the 12-month completion timeframes required by *OMB Circular A-76* and are expected to yield significant performance improvements and savings of \$16 million to \$18 million annually.

## Improved Financial Performance

The Department is integrating financial systems to produce information that is timely, useful, complete and reliable in order to facilitate and improve decision-making. Integrating financial management at the Department is particularly challenging. Most of the organizations brought together to form the Department of Homeland Security have their own financial management systems, processes and, in some cases, deficiencies. Four of the five major agencies that transferred to the Department reported 18 material weaknesses in internal controls for fiscal year 2002, and all transferred agencies within the Department had financial management systems that were not in substantial compliance with the *Federal Financial Management Improvement Act*. We are developing a strong financial management infrastructure to address these and other financial management issues. We have identified success factors, best practices and outcomes associated with world-class financial management and have made

# Management's Discussion and Analysis

financial management a department-wide priority. Specifically, in order to strengthen accountability to the taxpayers and to provide accurate and reliable financial information in support of management decisions, in fiscal year 2004, the Department:

- **Designed a New Integrated Accounting System** — The Department has undertaken a new resource transformation initiative called Electronically Managing Enterprise Resources for Government Effectiveness and Efficiency (eMerge<sup>2</sup>). This new system will consolidate and integrate budget, financial management, procurement and asset management capabilities. When fully implemented, eMerge<sup>2</sup> will result in financial savings by eliminating the need to maintain costly, duplicative systems. It will also improve departmental oversight and accountability of component operations in the budget, financial management, procurement and asset management areas as well as provide better and more accurate information for frontline mission decision-makers.
- **Implemented a Method to Collect Delinquent Debts** — The Department entered into a partnership with the Department of Treasury's Financial Management Service for the collection of all delinquent debts more than 180 days old. We developed procedures to ensure that all discharged debt is reported to the Internal Revenue Service in a timely manner.
- **Paid Bills in a Timely Manner** — The Department paid 97 percent of 50,000 noncredit card invoices on time; paid \$129,000 in late interest on \$526 million total invoices paid, and completely reconciled \$44 billion in cash for the most recent month that statistics are available.
- **Streamlined Payroll Operations** — The Department outsourced payroll to a more cost-effective provider common to all the Department's organizational elements and implemented an electronic time and attendance system for employees.
- **Consolidated Financial Operations** — Effective October 2003, the financial management services provided by legacy agencies that transferred components to the Department were discontinued. The accounting services previously provided by the departments of Commerce, Defense, Energy, Health and Human Services, Justice and Agriculture, and the General Services Administration were consolidated and are now provided by ICE. This reduced the number of financial management centers from 19 to 10.

## Expanded Electronic Government

The Department is working to deploy and manage information assets and services to ease the burden on citizens, businesses and other government organizations at the federal, state, local and tribal levels that conduct business with the Department. One of our most important and difficult challenges is to eliminate redundant information systems and develop a department-wide approach to enable information sharing. During fiscal year 2004, the Department:

- **Established the Homeland Security Operations Center** — This center provides a nation-wide around-the-clock warning system and brings 35 federal and local law enforcement agencies and intelligence community members into one alert system.
- **Introduced the Homeland Security Information Network** — This computer-based counter-terrorism communications network is connected to all 50 states and 20 major urban areas and will soon be deployed to five territories, Washington, D.C., and 30 other major urban areas. This program significantly strengthens the two-way flow of real-time threat information to state, local and private-sector partners.
- **Deployed Modern Telecommunications Technology** — The Department deployed secure video teleconferencing equipment to 54 state Emergency Operations Centers, 25 governors' offices and three federal locations. This technology has enabled easy and effective communications. In addition, the Department provided states with around-the-clock access to secure telephones, the ability to receive secure communications and access to secure videoconferencing. These tools will also be available to all governors' offices.



# Management's Discussion and Analysis

- **Created Tools for Non-Federal Partners** — The Department established a one-stop web portal for state, local and tribal entities to access information regarding homeland security grant and training programs.
- **Identified Capabilities for First Responders** — Identified technical specifications for a short-term, baseline interoperable communications system that will allow first responders to interact by voice with one another, regardless of frequency or mode. When adopted at the state and local levels, these specifications will enable most first responders to have some form of communication with one another during a crisis.
- **Developed an Information Technology Foundation** — The Department formulated our first enterprise architecture, a comprehensive description of current and future business strategies and supporting technologies. We published an information technology modernization blueprint and developed proposals and plans to integrate existing systems. We also established a centralized Network Operations Center that monitors, manages and administers our core network, providing connectivity to all organizational elements. proved Budget and Performance Integration

## Improved Budget and Performance Integration

During fiscal year 2004, efforts to improve in this area resulted in an increase in status from red to yellow in Budget and Performance Integration.

The Department has established a fully integrated performance-based planning, programming, budgeting and monitoring system. Our first Strategic Plan is the cornerstone of the *Future Years Homeland Security Program*, and is the road map for resource planning and program evaluations. We have linked performance goals with resource-allocation plans to form the budget foundation.

In order to facilitate a strong linkage among budget and management decisions, strategic planning and program performance, in fiscal year 2004, the Department:

- **Instituted the *Future Years Homeland Security Program*** — This five-year resource plan helps us meet our strategic goals and objectives. By identifying our long-range strategies and resource requirements, the Department is positioned to implement priority programs. This plan also links all programs and associated performance measures and milestones to the Department's strategic goals and objectives. The Department is one of only three departments required by Congress to forecast long-range resource requirements.
- **Linked Goals to Budget** — We linked our fiscal year 2005 and 2006 budget requests to the strategic goals and objectives articulated in the Strategic Plan. The Department's budget is aligned to outcome-oriented goals and annual milestones that measure progress in achieving the Department's strategic goals and objectives.
- **Established the Planning, Programming, Budgeting and Execution System** — The Department implemented this system to ensure program requirements are properly planned and identified, are aligned with our mission and goals, and have measurable performance outcomes that are key to the organization's success.
- **Trained Program Managers in Performance Budgeting** — The Department conducted training to educate program managers on performance budgeting with a five-year perspective. This resulted in better long-range planning for resource requests and forward thinking for the initial development of the fiscal year 2005 budget.
- **Measured Performance on a Quarterly Basis** — The Department established a detailed milestone plan to achieve annual goals and objectives. A performance report is provided to senior managers on a quarterly basis. Progress toward achieving performance goals is reviewed individually and collectively by departmental managers.

# Management's Discussion and Analysis

## Better Research and Development Investment Criteria

The Department uses the Better Research and Development Investment Criteria to achieve excellence and maximize the efficient and effective use of the Nation's research and development resources. These criteria enable priority setting and coordination of science and technology for the Department and interagency efforts.

In an effort to link Better Research and Development Investment Criteria to program outcomes in fiscal year 2004, the Department:

- **Developed the *National Strategic Plan for Homeland Security Science & Technology*** — In consultation with other appropriate agencies, the Department created a national policy and strategic plan that identifies priorities, goals, objectives and policies for science and technology in support of homeland security.
- **Established the Science and Technology Requirements Council** — The Department has established a formal body that is chartered to submit the research and development needs of the organizational elements as input to its planning, programming, budgeting and execution process.
- **Implemented Portfolio Research and Development Planning** — The Department has established portfolios to manage research and development planning. Each portfolio is supported by a multi-disciplinary Integrated Product Team and is required to directly link mission, objectives, programs and projects to a specific outcome. Each portfolio plan is subject to independent evaluation and executive management review.

## Real Property

The Department began a Real Property Strategy Initiative to define its real property inventory and shape the organizational elements' inventories to effectively respond to the mission needs of current and future organizational element programs. The initiative allows the Department to describe how real property should be integrated into its mission and serves as an overall guide for department-wide real property decisions. One of the desired outcomes of this initiative is that real property will be viewed as an integral part of the Department's mission. It will also allow the Department Asset Management to establish and maintain close links between departmental programs and projects and its corporate business and real property strategies. Achieving excellence in the management of real property involves deploying timely and accurate data systems; implementing performance measures; and using benchmarks and best practices to ensure the Department has the necessary assets in place to support its current and future missions. This is the ultimate goal of this initiative. This approach also ensures that the Department's real property assets are available, of the right size and type, safe, secure, sustainable, affordable, efficient and effective and able to provide quality workplaces.

The Department anticipates near-term results of the Real Property Strategy Initiative's focus to include:

- Expanded asset portfolio tracking and analysis capabilities;
- Comprehensive asset management strategy;
- Increased sales of underperforming assets; and
- Reduced maintenance and operating costs for owned real property holdings.

These goals produce increased efficiency and savings to the taxpayers.

# Management's Discussion and Analysis

During the fourth quarter of fiscal year 2004, the Department developed:

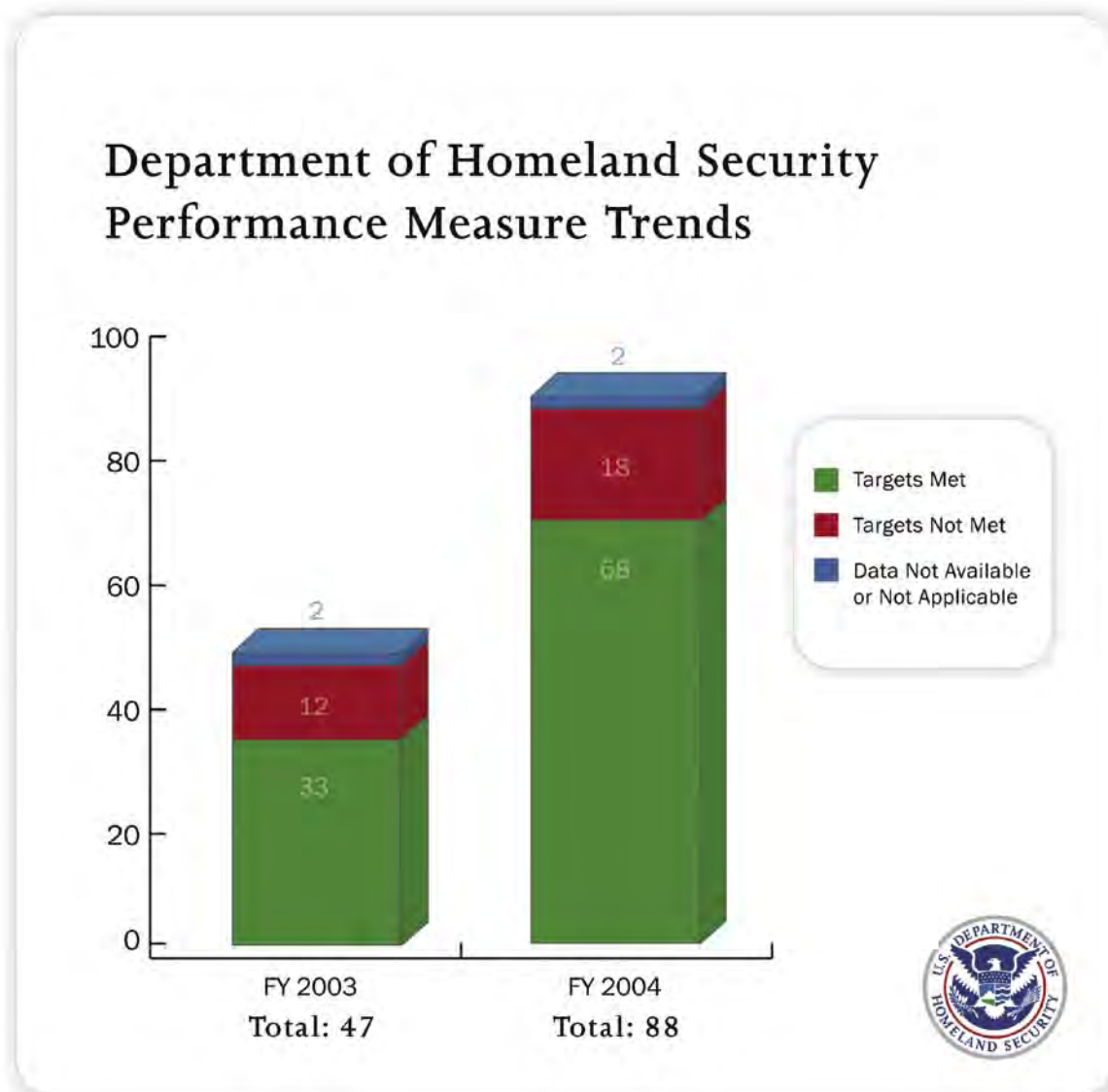
- A plan for implementing a department-wide inventory system that includes a review of real property information systems being used by organizational elements;
- An Asset Management Plan framework and issued corresponding guidance to organizational elements for review;
- A plan for implementing department-wide real property performance metrics;
- Departmental linkages and estimating formats that led to obtaining congressional approval for \$26 million in disaster relief funding for facilities damaged by Florida hurricanes in seven days; and
- The first integrated department-wide real property database for the Department's 71.4 million square feet of real property holdings.

# Management's Discussion and Analysis

## Performance Highlights

The Department of Homeland Security's seven strategic goals are the framework by which we measure the success of our programs as well as the individual contributions of our employees. We established 88 specific targets under our program goals in our fiscal year 2004 Performance Budget and met or exceeded 68, or 77 percent, of the established targets. This is an improvement of 7 percent compared to our performance during fiscal year 2003. While two reporting periods are not sufficient to establish a trend, we have established the baseline needed to measure our future performance.

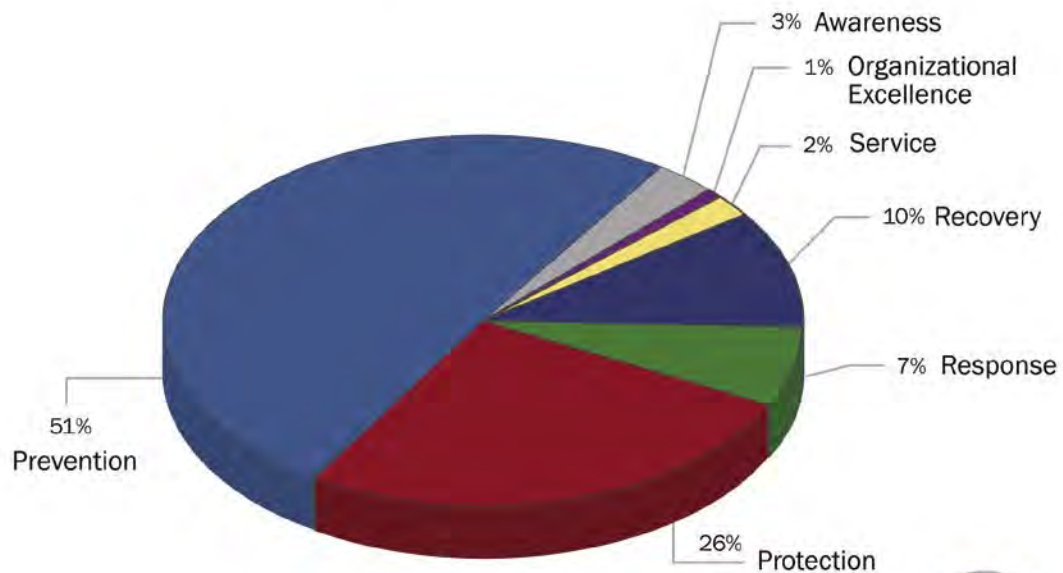
To better assess our performance where information was previously not available, we established baselines in fiscal year 2004 for 18 new performance measures. We report baselines that were successfully established as Target Met in the graph below. Performance information for these new measures will be provided in this report next year against the baselines established this year.



# Management's Discussion and Analysis

This section lists the Department's seven strategic goals and the high-level performance measures associated with each, along with an assessment of our performance. We are working to implement a process for reporting our performance and cost information by goal and objective, beginning in fiscal year 2005. Detailed information about the Department's performance in fiscal year 2004 is provided in Part III, Performance Information. The Net Cost of achieving performance in fiscal year 2004 by strategic goal is summarized in the following chart.

## Net Cost by Strategic Goal 2004



# Management's Discussion and Analysis

## Strategic Goal 1 – Awareness

*Identify and understand threats, assess vulnerabilities, determine potential impacts and disseminate timely information to our homeland security partners and the American public.*

### Serving the Public



The Homeland Security Advisory System is a threat-based, color-coded system that provides an effective means to disseminate information regarding the risk of terrorist attacks. In addition to identifying the general threat level, this advisory system can be used to target protective measures when threat information to a specific sector or geographic region is received.

On August 1, 2004, the Federal Government raised the threat level to Code Orange (High) for the financial services sectors in New York City, northern New Jersey and Washington, D.C. In addition,

### Overview

The Department is developing an intelligence and warning system to detect indicators of potential terrorist activity before an attack so pre-emptive, preventive and protective action can be taken.

The Department is also cultivating the personnel, facilities and procedures to assemble intelligence collected from the organizational elements, as well as other federal, international, state and local partners, and the Terrorist Threat Integration Center. By fusing this intelligence information, the Department creates a synoptic view of the current tactical terrorist threat situation, conducts long-term strategic terrorism intelligence analysis, provides an integrated intelligence package to appropriate recipients and establishes threat assessments. The Department goal is to have “domain awareness” over our areas of responsibility.

As part of our Information Sharing Initiative, the Department is investing in collaborative projects with state, local, and tribal governments and the private sector that will enhance our national ability to share accurate, useful, timely and actionable intelligence information, law enforcement sensitive information and critical infrastructure information. This use of innovative and “state of the market” information technologies marks another first in the Department’s support of members of the first-responder community.

An effective national protection program requires awareness of the assets that comprise the critical infrastructure, vulnerability assessments of the assets, prioritization of protective measures, implementation of protective programs, and measurement of these programs to drive continuous improvement. Intelligence and information analysis is an integral component of the Nation’s overall efforts to protect against and reduce our vulnerability to terrorism as it provides the threat context for protection activities. The Department receives, assesses and analyzes information from law enforcement, the intelligence community and non-traditional sources (e.g., state and local entities, the private sector) to increase situational awareness of terrorist threats and specific circumstances. The Department is working with state and local public safety officials and private-sector owners and operators to identify America’s critical infrastructures and key assets, identify their vulnerabilities to terrorist attack and implement appropriate protective measures. Much of this information is already in a Department-generated National Critical Infrastructure Database.

# Management's Discussion and Analysis

the Department issued a bulletin to the appropriate private-sector owners and operators of critical facilities about indicators of terrorist attack planning. Federal officials were sent to these localities to work with local law enforcement and security managers and senior department officials worked directly with the chief executives of the companies included in the threat report.

This marked the first time the Department used this system in such a targeted way. Compared to previous threat reporting, these intelligence reports better served the public by providing a high-level of detail. This advisory allowed the Department to increase protection in and around the buildings that required it and raised awareness.

## Highlights

In fiscal year 2004, the Department made progress toward achieving Goal 1 – Awareness. Performance highlights in support of this goal include the following:

- The Department introduced the Homeland Security Information Network. This computer-based counter-terrorism communications network is connected to all 50 states and 20 major urban areas and will soon be deployed to five territories, Washington, D.C., and 30 other major urban areas. This program significantly strengthens the two-way flow of real-time threat information to state, local and private-sector partners.
- The Department is providing states with around-the-clock capabilities to receive secure communications and access to secure videoconferencing. As of July 1, 2004, these tools became available to all governors' offices.
- The Department implemented the Homeland Security Operations Center, which brought 35 federal and local law enforcement agencies and intelligence community members into the same system. It is the most comprehensive 24-hour-a-day, seven-day-a-week warning system in the United States.
- The Department sent nearly 100 bulletins and other threat-related communiqués to federal, state, local and tribal law enforcement agencies and private-sector infrastructure owners and operators. This is another step in bringing the federal, state, local and private sectors into the nation-wide antiterrorism network.
- The Department's National Targeting Center, along with partners in the intelligence community, identified more than 800 people who were subjects of interest for reasons associated with terrorism. During the period of heightened alert in December 2003, the center played a pivotal role in analyzing information that helped us protect airline passengers at a time of increased threat. Using sophisticated targeting methodology, the Center analyzes all passengers and cargo before they arrive in the United States and then screens and targets for intensive anti-terrorism inspection. Information from both internal and external sources is examined and combined with intelligence and threat information to ensure that potentially dangerous people and cargo are stopped before they ever reach our shores.
- The Transportation Security Administration instituted a weekly Threat in the Spotlight training program, supported by the Federal Air Marshal Service Explosives Division, to provide the airport screener workforce with information regarding threat objects and tactics based on intelligence information, confiscated items discovered at airports or reports provided by state and local law enforcement entities.

# Management's Discussion and Analysis

## Trends

For fiscal year 2004, the Department established six performance measures that directly support the achievement of this goal. Of these six measures, the Department successfully met or exceeded six, or 100 percent, of the established targets. For three of the six measures, the Department did not set targets for fiscal year 2004, but collected baseline data to establish targets beginning in fiscal year 2005. In fiscal year 2003, the Department did not have measures related to this performance goal.

## Future Steps

Terrorist threats to the Homeland will not only continue into the future, but will become increasingly sophisticated. As the Nation takes steps to harden potential targets, terrorists will look to exploit other vulnerabilities inherent in an open society. A key to preventing terrorist activity is accurate and timely information.

The Department will build an integrated, comprehensive intelligence and warning system to detect terrorist activity before an attack occurs so pre-emptive, preventive and protective actions will be taken. We are putting in place the proper personnel, including a new generation of homeland security analysts, and the facilities and procedures necessary to assemble intelligence collected from a wide variety of homeland security partners. This intelligence will provide a comprehensive view of the most current tactical terrorist threat situation allowing the Department to provide an integrated intelligence package to appropriate recipients, establish threat assessments and conduct long-term strategic terrorism intelligence analysis.

During the next five years, we will develop robust capabilities to assess intelligence collected domestically and abroad and to collect information from a wide variety of sources. That information will be mapped against the Nation's vulnerabilities, allowing the Department to issue timely and actionable preventive and protective measures. We will also develop a comprehensive national indications and warning infrastructure with the capacity to provide timely, effective warnings for specific and imminent threats. In addition, the Department will build secure mechanisms and systems for exchanging sensitive homeland security and critical infrastructure information with homeland security officials, using the best features of existing federal, state, local and private systems. Further, the Department will build an enhanced identification and tracking capability of the maritime approaches and offshore transit routes of the United States.



## Strategic Goal 2 – Prevention

*Detect, deter and mitigate threats to our homeland.*

### Serving the Public



After U.S. Immigration and Customs Enforcement (ICE) officials fought for a legal permanent resident of Denver to be removed from the United States following his admission that he had attended a terrorist training camp, he was sent back to his native country of Pakistan this past summer.

Officials argued that Sajjad Nasser's participation in a training camp sponsored by Jaish-e-Mohammed (the Army of Mohammed) amounted to providing material support to a designated terrorist organization. The group based in Pakistan gained international notoriety for its alleged role in the execution of Wall Street Journal reporter Daniel Pearl. Nasser had been in U.S. government custody since March 2003 after

### Overview

The Department's first priority is to prevent terrorist attacks. The Department is achieving this by detecting terrorists before they strike, preventing them and their instruments of terror from entering the United States, and taking decisive action to eliminate the threats they pose. The Department is developing a comprehensive nation-wide common operating picture of investigative and enforcement activities in collaboration with other federal law enforcement entities.

By managing who and what enters the United States, the Department will prevent the entry of terrorists and instruments of terror while facilitating the legitimate flow of people, goods and services.

The Department has made significant progress, in cooperation with our international partners, in the global war on terror. Through bilateral mechanisms and multilateral forums, we have sought to share terrorist-related information to better secure international travel and trade and impede and deter terrorist exploitation of that system.

### Highlights

In fiscal year 2004, the Department made progress toward achieving Goal 2 – Prevention. Performance highlights in support of this goal include the following:

- The Department's US-VISIT Program is operating at 115 air and 14 sea ports of entry. As of the end of August 2004, US-VISIT had processed nearly 8.5 million people and matched more than 1,000 potential entrants to the United States against criminal watch lists. As a result, 264 adverse actions have been taken against aliens seeking admission to the United States.
- The Department's security initiatives thwarted terrorism and protected citizens by breaking up drug smuggling networks and their assets. In 2004, almost 568,705 pounds of cocaine, 1,080,923 pounds of marijuana and 2,938 pounds of heroin were seized by homeland security entities.
- In cooperation with the departments of State and Justice, the Department advanced the Secure and Facilitated Travel Initiative, which was adopted by the President and other heads of state at the G8 Summit in June 2004. The initiative's action plan contains 28 specific projects that will further enhance the Nation's security. Among those are efforts to:
  - Accelerate development of international standards for the interoperability of smart-chip passports;

# Management's Discussion and Analysis

being convicted the previous December of possessing counterfeit immigration documents and was sentenced to time served.

Nasser's case was among the first in which ICE lodged immigration charges against an individual based on section 411 of the *USA PATRIOT Act*, which substantially expands the legal definition of what constitutes a terrorist organization and engaging in terrorist activity.

- Develop mechanisms for real-time data exchange to validate travel documents;
  - Provide effective and timely information exchange on terrorist watch lists and lookouts;
  - Begin providing lost and stolen passport data to an Interpol database that will eventually allow for real-time sharing of the data among member countries.
  - Develop a methodology for assessing airport vulnerability to Man-Portable Air Defense System threats and effective countermeasures;
  - Improve methodologies to analyze data on passengers, crew and cargo in advance of travel;
  - Develop best practices for the use of Air Marshals;
  - Examine ways to collaborate on the forward placement of document advisers;
  - Develop robust commercial aircraft flight deck security measures;
  - Expand research and development on biometric technologies; and
  - Enhance port and maritime security through implementation of international standards and compliance with the International Maritime Organization's requirements as set forth in the *International Ship and Port Security Code*.
- Since September 11<sup>th</sup>, the U.S. Coast Guard (USCG) made the largest commitment to port security operations since World War II, conducting more than 35,000 port security patrols and 3,500 air patrols. The USCG boarded more than 2,500 high-interest vessels, interdicted more than 11,000 illegal migrants and created and maintained more than 115 Maritime Security Zones.
  - The Department, in cooperation with the international community, froze more than \$140 million in terrorist-related assets, designated 383 individuals and entities as terrorist supporters, apprehended or disrupted key terrorist facilitators and deterred donors from supporting al Qaeda and other like-minded terrorist groups.
  - As of September 2004, the Department's Student and Exchange Visitor Information System, which maintains information on international students and exchange visitors to the United States, included 7,469 schools, representing more than 9,500 campuses that are certified to participate in the program and 1,436 approved exchange programs. More than 838,000 students and exchange visitors have been approved to study in the United States, and their information is managed by this system. In addition, the system maintains records for more than 120,000 dependents of students and exchange visitors. Initial analysis of the system flagged more than 117,800 records for potential violations of immigration status since August 2003. Following a rigorous vetting process, nearly 2,400 credible leads were ultimately referred for further investigation, resulting in 228 arrests.

# Management's Discussion and Analysis

- U.S. Customs and Border Protection (CBP) inspectors are operating in 25 international ports of trade, working alongside our allies to identify and inspect high-risk cargo before it reaches our shores. With advance manifest information requirements, 100 percent of high-risk cargo is screened through targeting using a set of specific indicators.
- CBP began the Immigration Security Initiative by launching pilot efforts at Schiphol Airport in the Netherlands and at Warsaw, Poland's Chopin Airport in 2004. By establishing small teams of CBP officers at key foreign "hub" airports, CBP is working with airline officials and foreign law enforcement officials to target and inspect high-risk passengers prior to boarding U.S.-bound aircraft. If a passenger lacks proper documentation, the officer advises the airline that the passenger should not board. If a document is suspected of being fraudulent, further law enforcement action can be taken.
- The Department's Biometric Verification System has assisted in 359 apprehensions of people trying to use Mexican Border Crossing Cards that do not belong to them since the system was implemented in May 2004. The verification equipment reads the fingerprint encoded in the card and compares it to the fingerprint of the person presenting it in an effort to detect imposters trying to enter the United States. The system has been installed at every land border port on the Mexican border and 12 of the larger ports on the Canadian border. Border Crossing Cards are the most widely used travel documents held by Mexican citizens and can be used in place of passports and visas.
- CBP became the first federal law enforcement agency to fly unmanned aerial vehicles on a sustained basis, outside of controlled airspace within the United States, as part of a feasibility study conducted during the Arizona Border Control Initiative. Since the start of operations in June 2004, these vehicles have flown 590.1 hours. During that time, they were instrumental in the apprehension of 965 undocumented aliens and have assisted with the seizure of 843.38 pounds of marijuana and the recovery of two stolen vehicles.
- CBP strengthened security and screening capabilities at U.S. ports of entry by deploying non-intrusive inspection and radiation detection technology. To detect nuclear or radiological weapons, weapons-grade material or other contraband, CBP has deployed 155 large-scale non-intrusive inspection systems, more than 10,500 personal radiation detectors, 281 large-scale radiation portal monitors and 373 radiation isotope identification devices. Through August 31, 2004, non-intrusive inspection technology has been used at the ports of entry to conduct 9,171,944 examinations.
- CBP provided record levels of aviation support to Border Patrol Agents on the ground during both routine operations and special efforts. During this fiscal year, CBP Border Patrol air operations flew more than 45,000 hours, apprehending 96,341 violators and seizing more than \$103 million in illegal narcotics. This equates to 2.1 arrests and \$2,258 in seized contraband for each hour flown.
- The Transportation Security Administration (TSA) launched the Transit and Rail Inspection Pilot Program in May 2004 to determine the feasibility of screening passengers, luggage and carry-on bags for explosives in the rail environment. Phase I of the pilot program was conducted at the New Carrollton, Maryland

# Management's Discussion and Analysis

station, which serves multiple types of rail operations. Phase II was launched in June 2004 for explosives screening of checked baggage and parcels at Union Station in Washington, D.C. Phase III was launched in July 2004 for explosives screening of passengers and carry-on baggage inside a mobile train car fitted with security technologies.

- TSA deployed simulated weapon and modular bomb set kits to every airport along with detailed protocols for training and testing the screening workforce, conducted covert tests at 270 airports to expose screeners to new threat scenarios, and conducted annual re-certification of the screeners, which resulted in the removal of less than 1 percent of screeners who failed to recertify.
- TSA screeners intercepted more than 6.7 million prohibited items at screening checkpoints in 2004, including more than 1.9 million knives, 21,721 box cutters and more than 650 firearms. Since assuming responsibility for airport security in February 2002, TSA screeners have intercepted more than 16.5 million prohibited items. Also, in May 2004, TSA launched the Prepare for Summer Takeoff campaign to streamline the security checkpoint process by informing travelers of items prohibited in the airplane cabin.
- TSA certified installation of hardened cockpit doors on all 6,000 large passenger aircraft. It also trained the first group of armed pilots to defend the flight decks of passenger planes. In January 2004, the Artesia, New Mexico, training program for arming pilots to defend the cockpits of passenger planes was doubled. In addition, by December 31, 2004, TSA will have instituted 100 percent checked baggage screening and modernized passenger screening at America's airports.
- The TSA Transportation Worker Identification Credential Program is developing an integrated credential-based, identity management system, including standards, for all transportation workers requiring unescorted access to secure areas of the Nation's transportation system. Phase II of the program, Technology Evaluation, was completed in October 2003. The Technology Evaluation Phase evaluated a number of potential card technologies. Phase III, Prototype, commenced in July 2004. The Prototype Phase evaluates a broad range of business processes pertaining to identity management and tests a complete program end-to-end solution for the first time. A comprehensive cross-section of transportation modes, types of facilities and transportation workers are participating in the evaluation to meet Prototype goals.
- The Department conducted more than 35 million background and security checks on those seeking immigration benefits in an effort to identify those who may pose a threat to national security and public safety.
- The Federal Air Marshal Service expanded so that thousands of protective air marshals are now flying on tens of thousands of flights each year. In addition, an Air-to-Ground Communication System was initiated to provide the service with critical communications capability through a personal digital assistant device in the event of a security/emergency situation.
- Seven Free and Secure Trade (FAST) crossings were opened on the U.S./Mexican border and six FAST crossings were opened on the U.S./Canadian

# Management's Discussion and Analysis

border, bringing the total number of such crossings to 18. FAST lanes use radio frequency technology that allows low-risk trucks to transmit key identifying information to the Department. This enables the trucks to move through the border crossing in seconds rather than hours, easing traffic congestion at the busiest crossings.

## Trends

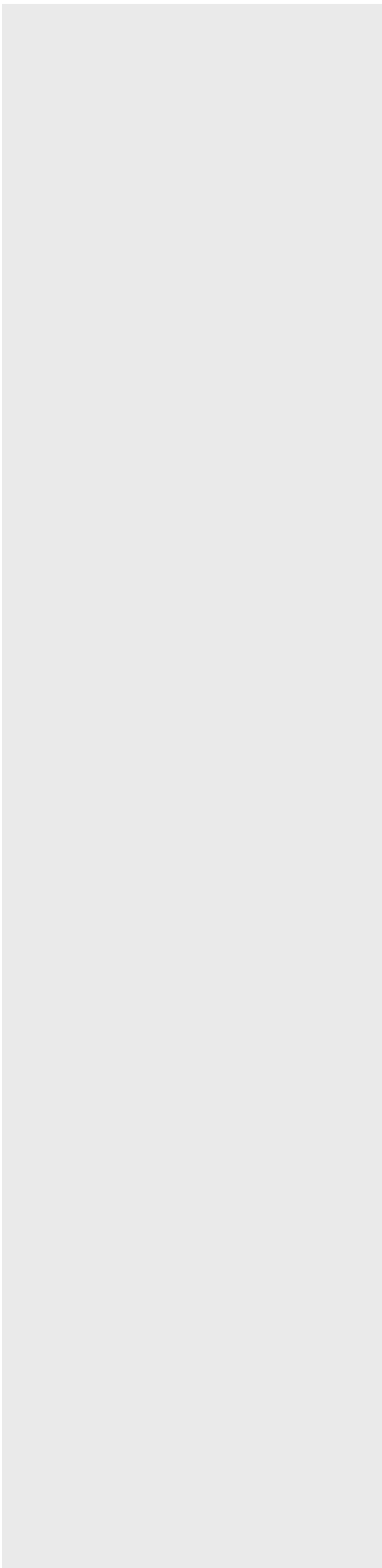
For fiscal year 2004, the Department established 41 performance measures that directly support the achievement of this goal. Of these 41 measures, the Department successfully met or exceeded 29, or 71 percent, of the established targets. For seven of the 29 measures classified as met, the Department did not set targets for fiscal year 2004, but collected baseline data to establish targets beginning in fiscal year 2005. In fiscal year 2003, the Department met 17 out of 23, or 74 percent, of its targets related to this goal.

## Future Steps

The Department's first priority is to prevent further terrorist attacks against the Nation. By managing who and what enters the United States, we will work to prevent the entry of terrorists and instruments of terror while facilitating the legitimate flow of people, goods and services. During the next five years, the Department will create coherent screening, targeting and risk-management approaches across activities, including the capacity for transmitting and receiving advanced information about people and commercial shipments approaching the United States. We will develop real-time monitoring and surveillance of the border, including seaports and between ports of entry. The Department will build an integrated system that detects, identifies and tracks high-threat vehicles in the air, land and maritime domains and share this information with appropriate stakeholders. We will implement a program to identify, track and intercept chemical, biological, radiological, nuclear and explosive components and systems at ports of entry and, where practicable, in intermodal transportation systems within U.S. borders. Additionally, the Department will project apprehension rates and ensure that detention space is available to support our detention and removal efforts.

Specifically, the U.S. Immigration and Customs Enforcement will strengthen the institutional removal program to help ensure incarcerated aliens are removed from the United States rather than released into the community. Also, the fugitive operations program will be strengthened to increase the apprehension of fugitive aliens, and the use of alternatives to detention will be expanded to better ensure aliens will appear for immigration hearings or for removal and to reduce detention costs. U.S. Customs and Border Protection will continue to plug security gaps at the Nation's borders with reasonable and substantial control over vulnerable areas. Non-intrusive inspection technologies, such as radiation portal monitors and personal radiation detectors, will be deployed strategically to various ports of entry. There will be additional agents along the borders between ports of entry and new surveillance structures supplemented with piloted and unmanned aerial vehicles.

# Management's Discussion and Analysis



In addition, the Transportation Security Administration will support its screener workforce with training and the necessary supplies in an effort to further stabilize and increase the efficiency of the screening operations. We will also focus on building a risk-based air cargo screening system, deploying air cargo compliance inspectors and additional K-9 teams, and advancing research and development of technologies to augment screening of high-risk air and rail cargo.

# Management's Discussion and Analysis

## Strategic Goal 3 – Protection

*Safeguard our people and their freedoms, critical infrastructure, property and the economy of our nation from acts of terrorism, natural disasters or other emergencies.*

### Serving the Public



Two suspects were arrested for conspiring to steal the America Online email subscriber list of 92 million customers as a result of an investigation by the U.S. Secret Service. In June, members of the Secret Service New York Electronic Crimes Task Force and the Electronic Crimes Special Agent Program, with the assistance of Special Agents from the Washington and Las Vegas field offices, developed an investigation that resulted in the arrest of an America Online software engineer and another suspect. David Kelly, the prosecuting U.S. Attorney for the Southern District of

### Overview

The Department is leading a systematic, comprehensive and strategic effort to reduce America's vulnerability to terrorist attack. The Department, along with other agencies, identifies, prioritizes and coordinates the protection of critical infrastructure and key resources to prevent, deter and mitigate the effects of deliberate efforts to destroy, incapacitate or exploit these assets. Specific emphasis is placed on critical infrastructure and key resources that could be attacked to cause catastrophic health effects or mass casualties. This demands the capability and capacity to identify, halt and, where appropriate, prosecute terrorists and their supporters in the United States. The Department is strengthening our federal law enforcement communities, augmenting the scope and quality of information available to law enforcement, and is using all available tools to stop those who wish to do us harm. To accomplish these objectives, the Department is working closely with other federal agencies, state and local governments, and the private sector.

### Highlights

In fiscal year 2004, the Department made progress toward achieving Goal 3 – Protection. Performance highlights in support of this goal include the following:

- The United States Secret Service (USSS) provided incident-free protection to all its protectees, including the President, Vice President and visiting world leaders. This is the USSS's highest priority.
- Through its network of electronic crimes task forces, the USSS protected U.S. citizens against electronic and financial crimes by preventing \$150 million in overall losses.
- USSS reduced losses to the public attributable to counterfeit currency, other financial crimes and identity theft, which threaten the integrity of our currency and the reliability of financial payment systems. The amount of counterfeit passed per million dollars of genuine U.S. currency was \$60, which is 23 percent better than the fiscal year 2004 target of \$74.
- U.S. Immigration and Customs Enforcement's Federal Protective Service answered 10 million law enforcement calls, resulting in 4,074 arrests. The Service responded to and managed 858 reports of suspicious packages, detected and turned away 524,547 prohibited items and weapons, responded to and defended against 1,625 demonstrations and disturbances, and issued 61,721 case control numbers for follow-up investigation.

# Management's Discussion and Analysis

New York, said this was the first large-scale investigation in the Nation to use the recently enacted "CAN-SPAM Law," which was passed by Congress in early 2004. Due to the forensic searches that Secret Service Agents executed on the suspect's computers, evidence was produced that revealed America Online computers had been compromised. The investigation demonstrated the success of the Electronic Crimes Task Force, which linked investigative data that were dispersed over a wide geographical area and shared between the private sector and law enforcement agencies.

- The Department initiated an aggressive campaign to enforce new regulations that require maritime vessel and facility owners to develop and implement maritime security plans and procedures. Enforcement began July 1, 2004, and included the establishment of the National Maritime Security Advisory Committee, approval of more than 10,500 domestic vessel security plans and 5,000 domestic facility security plans, verification of security plan implementation on 8,100 foreign vessels, completion of foreign port security assessments on more than 100 countries conducting direct trade with the United States and completion of 55 domestic port security assessments.
- Through the first responders training program, the Department has trained more than 250,000 emergency responders in courses ranging from awareness and prevention to chemical HAZMAT techniques. Through our partnership with Texas A&M University, this was expedited to reach more emergency responders faster.
- Since its creation, the Department has provided states and localities with more than \$8.2 billion in State Homeland Security Grants. These grants are for the purchase of specialized equipment to enhance the capability of state and local agencies to prevent and respond to incidents of terrorism involving the use of chemical, biological, radiological, nuclear or explosive weapons; for the protection of critical infrastructure and prevention of terrorist incidents; for the development, conduct and evaluation of state chemical, biological, radiological, nuclear or explosive weapons exercises and training programs; and for costs associated with updating and implementing each state's homeland security strategy.
- The Department has allocated \$1.5 billion to 50 urban areas within the United States as part of the Urban Area Security Initiative. This program provides grants to the Nation's large urban areas, major ports and mass transit systems to enhance the capabilities of the region's first responders to prevent, protect and respond to acts of terrorism.
- The Department distributed \$441 million in three rounds of Port Security Grants, which fund risk assessments, command facilities and other projects that will help local officials thwart terrorists. In addition, these funds assist in laying the foundation for ports to continually make improvements and to employ new security technologies.
- By the end of fiscal year 2004, the Department distributed \$2 billion to more than 20,000 local fire departments through the Assistance to Fire Fighters Grant Program. Also, the Department awarded \$750 million to thousands of fire departments across America to meet their preparedness needs.
- The Department developed a national mutual aid framework and resource management system in support of the National Incident Management System, which allows federal, state and local governments to order and track disaster response resources quickly and effectively. The Catastrophic Incident Annex and Supplement to the National Response Plan and the Department's Radiological Emergency Preparedness and Chemical Stockpile Emergency Preparedness programs were developed to ensure that emergency plans have been developed and exercised and warning systems are in place and tested for communities living near nuclear power facilities and chemical stockpiles.



# Management's Discussion and Analysis

- The Department awarded \$78 million in pre-disaster mitigation funds for pre-disaster planning and cost-effective mitigation projects. In 2004, 459 applications were received from 52 of 55 states and U.S. territories, 13 tribal governments and Washington, D.C. More than \$3 million in mitigation grants were also awarded through the Disaster Resistant University Program, which helps universities and colleges implement a sustained pre-disaster mitigation program aimed at reducing overall risk to students, faculty, facilities and research assets from natural hazards such as hurricanes.
- More than 1,200 Citizen Corps Councils have been formed across the country, serving 50 percent of the U.S. population. These councils help link citizens with meaningful volunteer opportunities and emergency response training courses that will strengthen homeland security efforts at the local level. Communities are becoming safer, stronger and better prepared to meet the threats of terrorism, crime and disasters of all kind, as well as address public health issues.
- All federal agencies located in the National Capitol Region participated in the first interagency emergency exercise in May 2004. This exercise gave participants the opportunity to verify their emergency plans and test their ability to continue essential government services during a crisis. In June 2004, *Federal Preparedness Circular 65* was updated providing improved guidance on emergency planning to federal partners and training was provided to help agencies in the National Capitol Region develop their plans and programs.
- U.S. Customs and Border Protection (CBP) Agricultural Specialists made more than 1.7 million interceptions of prohibited plant materials, meat, poultry and animal byproducts. Agricultural Specialists discovered more than 69,000 quarantine-significant pests that could have damaged crops and other agricultural resources.
- CBP launched the Arizona Border Control Initiative to disrupt smugglers operating in Arizona. CBP's Border Patrol reassigned 200 agents to the Arizona sector, with 60 additional agents specially trained in search and rescue and tactical operations techniques. In addition, increased air missions and support from ICE and other law enforcement entities augmented these agents. Also, the Interior Repatriation Program was implemented to safely return illegal Mexican migrants to their homes. As a result of this program, heat exposure deaths were down in the Tucson Sector by 69 percent, from 45 during the high season of fiscal year 2003 to 14 in fiscal year 2004.

## Trends

For fiscal year 2004, the Department established 28 performance measures that directly support the achievement of this goal. Of these 28 measures, the Department successfully met or exceeded 23, or 82 percent, of the established targets. For 11 of the 23 measures classified as met, the Department did not set targets for fiscal year 2004, but collected baseline data to establish targets beginning in fiscal year 2005. In fiscal year 2003, the Department met 12 out of 17, or 71 percent, of its targets related to this goal.

# Management's Discussion and Analysis

## Future Steps

The Department is leading a systemic, comprehensive and strategic effort to reduce the country's vulnerability to terrorist attack. We, along with other agencies, are working to identify, prioritize and coordinate the protection of critical infrastructure and key resources to prevent and mitigate the effects of deliberate efforts to destroy, incapacitate or exploit these assets. Specific emphasis is placed on critical infrastructure and key resources that could be exploited to cause catastrophic health effects or mass casualties. The Department is strengthening federal law enforcement communities, augmenting the scope and quality of information available to them and providing tools to assisting them in stopping those who wish to do this country harm.

During the next five years, the Department will continue to integrate law enforcement functions to maximize effectiveness and minimize duplication. We will create a rigorous document fraud detection and development system that yields documents of high integrity while thwarting forgeries or fabrications. The Department will also enhance and maintain nation-wide critical infrastructure and key-asset registry with geospatial data that focuses on identifying and prioritizing infrastructure and key resources. We will develop the capacity to "map" intelligence threat information to vulnerability assessments and choreograph an interactive relationship between analysis of threats against the Homeland, comprehensive vulnerability assessments and domestic preventative and protective measures. The Department will establish baseline understanding of and continuing capacity to monitor the "health" of cyber and physical infrastructure as a foundation for indications and warning efforts. We will develop the capability to provide early warning about cyber attacks, vulnerability disclosure and emergency response. We will provide state, local and private sectors with information, training and services to implement measures to effectively and consistently protect infrastructure. Additionally, the Department will form a national continuance of government and operations program that allows every department to continue should an emergency occur, including redundancy for off-site data storage and analysis.

The Department's work in improving our ability to detect and prevent chemical, biological, radiological and nuclear threats to the Homeland will reduce our vulnerability. We are establishing national priorities in the development of technologies against such terrorism to recognize identify and confirm the occurrence of an attack and minimize casualties. The Department will strengthen the Nation's preparedness by focusing federal, state and local efforts on a cohesive, mutually reinforcing response capability. We will develop an attack warning and characterization system that provides early warning and detection of biological attacks and assists in guiding response actions. We will also create a nation-wide exercise program to maintain high preparedness standards for jurisdictions. Additionally, the Department will implement a nation-wide training program for first responders that will include basic chemical, biological, radiological and nuclear response capabilities.

# Management's Discussion and Analysis

## Strategic Goal 4 – Response

*Lead, manage and coordinate the national response to acts of terrorism, natural disasters or other emergencies.*

### Serving the Public



Coast Guard crews participating in Operation Able Sentry rescued 686 Haitian migrants attempting to make the treacherous journey to the United States from Haiti. Operation Able Sentry is an enhanced migrant interdiction operation aimed at deterring illegal migration from Haiti to prevent the loss of life at sea and maintain U.S. maritime borders. In April, the Coast Guard Cutter Forward rescued nearly 400 Haitian migrants, marking the single largest migrant interdiction by the Coast Guard since Operation Able Sentry began. The Forward's crew safely transferred all the migrants to their cutter including 62

### Overview

The Department successfully manages the Nation's response to natural disasters and would lead the response to any future terrorist attacks that might occur despite our best efforts at prevention. The Department is improving the systems and preparing individuals who respond to acts of terror or other emergencies. A top priority for the Department is ensuring connectivity and interoperability with appropriate federal, state and local entities accountable for response. The Department is establishing the organizational structure, response assets and incident command facilities to act decisively for any type of national emergency such as natural and man-made disasters and terrorism. Our communities and emergency personnel are organized, trained and equipped to detect and identify dangerous agents in the event terrorists use chemical, biological, radiological, nuclear or explosive weapons, respond rapidly, treat those who are harmed, contain the damage and decontaminate the area.

We are integrating our response systems and teams and completing catastrophic all-hazards plans for the Nation's most vulnerable communities, including capabilities to ensure coordinated response operations, logistics and support. In the event state, local and tribal resources are overwhelmed by major incidents, the Department will provide assistance. We are working with our partners to implement a National Incident Management System and a single, all-discipline National Response Plan that will strengthen the Nation's ability to act during times of crisis. In addition, the Department, in partnership with other nations, federal, state and local agencies, mariners and volunteers, is assisting mariners in distress and protecting property from imminent danger.

### Highlights

In fiscal year 2004, the Department made progress toward achieving Goal 4 – Response. Performance highlights in support of this goal include the following:

- The U.S. Coast Guard (USCG) exceeded its target of saving 85 percent of mariners in imminent danger during fiscal year 2004, by 1.8 percent, for a total of 86.8 percent of lives saved. USCG responded to more than 31,000 incidents, saving more than 5,300 people while assisting more than 42,000 additional people. During these responses, the USCG prevented the loss of more than \$234 million in property.
- From fiscal year 2002 to fiscal year 2004, the Department has approved or requested \$13.1 billion for first responder and public health terrorism preparedness, an increase of 992 percent over the \$1.2 billion spent in the previous three years.

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children and a pregnant woman. "The success of this interdiction is not only measured in the number of people stopped from entering the country illegally, but also in the fact that we did it without anyone getting hurt or going in the water," said Commander Fred Midgette, the Forward's commanding officer. As of May 2004, Operation Able Sentry has resulted in the rescue and repatriation of 1,591 Haitian migrants since it began February 21, 2004. More than 10,700 migrants were interdicted in the Caribbean region this fiscal year.

- The Department conducted the Top Officials exercise to test response capabilities in the event of major incidents involving weapons of mass destruction. The exercise involved first responders in two major U.S. cities and the coordination of local, state and federal agencies and programs.
- The Department launched the Strategic Communications Resources Initiative, which will establish secure videoconferencing at all 50 state Emergency Operations Centers, as well as those of two territories and Washington, D.C. This initiative provides governors with secure telephones and the ability to receive secure communications, as well as coordinate security clearances for state-designated officials.
- Issued new standards for major pieces of first responder equipment, including personal air filtration protection, personal protective clothing for personnel working in contaminated areas, and basic protective clothing for law enforcement for incidents involving possible chemical, biological or radiological incidents.
- Identified technical specifications for a short-term, baseline interoperable communications capability that will allow first responders to interact by voice with one another, regardless of frequency or mode. When adopted at the state and local level, these specifications will enable most first responders to have some form of communication with one another at the scene of a crisis.
- In June 2004, the Department announced the first designations and certifications under the *Support Anti-Terrorism by Fostering Effective Technologies Act*. The Act provides liability limitations for makers and sellers of qualified anti-terrorism technologies. The designations and certifications have been awarded to both small businesses and large companies.
- The Department completed the Program for Response Options and Technology Enhancements for Chemical/Biological Terrorism with the Washington Metropolitan Area Transit Authority. The program, which is an operational chemical agent detection and response capability program, is deployed in stations operated by the Washington Metropolitan Area Transit Authority.
- The Federal Emergency Management Agency (FEMA) greatly exceeded its targeted capability level of being able to provide intermediate emergency housing for 600 evacuees, reaching a year-end support capacity of up to 15,000 evacuees. FEMA also rapidly provided emergency logistical needs, such as 140,000 rolls of plastic roofing, 10.8 million gallons of water, 57 million pounds of ice, more than 14 million meals and 935 generators to help provide emergency power for communities impacted by the string of hurricanes that struck the Southeast during the most active hurricane season the Nation has seen in more than 100 years. The number of deployed FEMA personnel in fiscal year 2004 peaked at 4,568 following Hurricane Frances. The greatest deployments of FEMA's Urban Search & Rescue and National Disaster Medical System teams occurred in response to Hurricane Ivan, with more than 1,000 personnel responding.
- FEMA's Hurricane Liaison Team met its annual target of achieving a 24-hour response time after activation. The National Disaster Medical System and Urban Search & Rescue teams also achieved impressive hurricane-related

# Management's Discussion and Analysis

response times with the most current available data indicating average maximum response times of 10.66 and 11.50 hours, respectively. During fiscal year 2004, FEMA disaster response teams averaged a response time of approximately 50 hours, well below the 2004 year-end target of 72 hours. The overall average response time for logistical and associated services was approximately 64 hours, also below the annual target of 72 hours.

- Released the first-ever consensus *Statement of Requirements for Public Safety Wireless Communications and Interoperability* (posted at [www.SafecomProgram.gov](http://www.SafecomProgram.gov)), which is already prompting private sector response, with more than 5,000 copies downloaded from the website and industry already proposing solutions compatible with those requirements.
- Through FEMA's National Emergency Training Center, the Department promotes the professional development of the fire and emergency response community and its allied professionals. Classes are conducted about 47 weeks a year, and the student body includes representatives of federal, state and local governments, volunteer organizations, private industry and educational institutions from throughout the United States and around the world. Approximately 16,000 students attend the on-campus resident courses each year, while another 86,000 students attend off-campus courses in other states. In addition, some 195,000 students access the distance learning offered through FEMA's website.

## Trends

For fiscal year 2004, the Department established two performance measures that directly support the achievement of this goal. The Department successfully met its measures, achieving 100 percent of the established targets. In fiscal year 2003, the Department met one out of two, or 50 percent, of its targets related to this goal.

## Future Steps

Although preventing terrorist attacks is our first priority, we are equally prepared to respond in the event of any emergency. The Department is improving its capabilities and preparing those who respond to acts of terror and other emergencies. Our priority is ensuring connectivity and interoperability with the appropriate federal, state and local entities that are accountable for response. The *Future Years Homeland Security Program* will help ensure a specific, comprehensive weapons of mass destruction response plan that incorporates high-speed response and surge of critical federal assets and supplies to provide full-spectrum mass casualty care.

During the next five years, the Department will create a National Incident Management System to develop incident management expertise, interoperable standards for incident response, and maintain and provide a forum for increased dialog and cross training among response communities. We will also develop a single, comprehensive and seamless incident command apparatus using the capabilities, assets and expenditures of all Department entities. The Department will implement an interoperable, safe and reliable communications system to ensure an effective response to crisis. Additionally,

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we will build a comprehensive package of strategically pre-positioned response equipment, available trained personnel, supplies and transportation assets.

We will strengthen the Nation's ability to respond to emergencies by integrating departmental response systems and teams and completing catastrophic all-hazards plans for the most vulnerable communities. The Department will provide health and medical response readiness through integrated planning, surge capacity capabilities and availability of vaccines and medical supplies to address health and medical emergencies or acts of terrorism. We will develop the capacity to provide emergency housing to large displaced populations following major disasters. We will also provide a federal medical response capability that supports state and local disaster response by enhancing National Disaster Medical System team readiness and capability with the goal being to reduce the average team response time, while increasing the percentage of fully operational Disaster Medical Assistance teams. The Department will provide and coordinate a quick and effective response when state, local and tribal resources are overwhelmed.

# Management's Discussion and Analysis

## Strategic Goal 5 – Recovery

*Lead national, state, local and private-sector efforts to restore services and rebuild communities after acts of terrorism, natural disasters or other emergencies.*

### Serving the Public



In fiscal year 2004, the Office of State and Local Government Coordination and Preparedness developed a Universal Task List to outline the actions federal, state and local governments should perform in order to prevent, respond to and recover from the man-made and natural disasters. Department of Homeland Security advisers met with federal, state and local stakeholders at a working session in June 2004 to review the Universal Task List and educate the participants regarding the actions required to be taken in order to prevent, respond to and recover from events defined by 15 scenarios. The scenarios, developed by the Homeland Security Council, address a range of probable threats posed by

### Overview

In the event of a terrorist attack or other natural disaster or emergency, the Department is prepared to lead national, state, local and private-sector efforts to help rebuild communities and restore services. This includes assessing losses caused by disaster, identifying infrastructure recovery actions and identifying capabilities of local partners in rebuilding. The Department works with our partners to ensure the Nation's capability to recover from multiple or simultaneous disasters, including terrorist use of weapons of mass destruction, other man-made hazards and natural disasters, through the development and maintenance of the short- and long-term plans and capabilities necessary to recover from both catastrophic and non-catastrophic disasters.

Federal assistance programs to states augment critical state and local programs and are provided on a risk-managed basis through a one-stop shop. Recovery plans improve federal support to state and local governments for incidents that overwhelm state, local and private-sector resources. This allows for a more flexible federal response and supports stronger local planning for recovery.

### Highlights

In fiscal year 2004, the Department made progress toward achieving Goal 5 – Recovery. Performance highlights in support of this goal include the following:

- The Federal Emergency Management Agency (FEMA) provided recovery assistance to families, individuals and communities after more than 50 federal disasters, including hurricanes, floods, typhoons, tornadoes, ice storms and landslides. In January 2004, FEMA provided more than \$7 million in temporary housing assistance to California residents in the San Simeon area after an earthquake.
- FEMA continued its recovery planning for catastrophic disasters, which included a major exercise in New Orleans in July 2004. The agency also continued improving the efficiency of its disaster assistance processing centers and achieved its target of 90 percent customer satisfaction with the Individual Assistance Program, which provides disaster recovery assistance to families and individuals.
- As fiscal year 2004 drew to a close in August and September, FEMA's main focus was on the effects of the six hurricanes that left a trail of destruction across the Southeast. As part of recovery operations, FEMA provided more than \$11 million for debris removal and worked with state and local governments to assist in repairing public infrastructure.

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terrorists, natural disasters and other emergencies. The Universal Task List, combined with feedback received from the Department's federal, state and local partners, is being used to develop a Target Capabilities List that will further define policies, procedures, personnel, training, equipment and mutual aid agreements needed to execute the task list. The Universal Task List, with associated capabilities and metrics obtained from scenario exercises, will provide officials at all levels with a framework for assessing their level of preparedness and targeting resources to address greatest needs.

- FEMA registered more than 1 million applicants for disaster recovery assistance in declared counties, inspected more than 500,000 homes and approved more than \$900 million to help victims repair their homes, temporarily relocate or meet other emergency needs. FEMA also funded crisis counseling – more than \$1.4 million in Florida – for victims of the devastating string of hurricanes that struck the Southeast.

## Trends

For fiscal year 2004, the Department successfully achieved its mission of restoring services and rebuilding communities after emergencies. In fiscal year 2003, the Department had two measures related to this goal and met both targets, or 100 percent.

## Future Steps

The Department leads the Nation in coordinating recovery from disasters. In the event of a national emergency, the Department is prepared to lead national, state, local and private-sector efforts to help rebuild communities and restore services. We will lead long-term recovery, which includes assessing losses and identifying infrastructure recovery actions and capabilities of local partners in rebuilding.

During the next five years, the Department will create a national plan for recovery from catastrophic disasters, including chemical, biological, radiological or nuclear attack that addresses recovery needs such as large-scale housing needs, debris removal, decontamination, environmental restoration and repair or replacement of public infrastructure. We will improve disaster assistance delivery through integration of advanced technological systems, such as web-based applications and voice recognition, standardized staff training and certification, and program redesign focused on increased efficiencies and quicker delivery of disaster assistance.

The United States has the capability to recover from national emergencies, regardless of the cause. We will work with our homeland security partners to strengthen the Nation's ability to recover from multiple or simultaneous disasters through the development and maintenance of the plans and capabilities necessary to recover. In addition, we will lead the Nation's recovery by delivering timely assistance to individuals and families during emergencies, providing help to restore services and public facilities, and providing state and other partners with trained and readily deployable leaders and staff to manage all levels and types of disasters.



# Management's Discussion and Analysis

## Strategic Goal 6 – Service

*Serve the public effectively by facilitating lawful trade, travel and immigration.*

### Serving the Public



During fiscal year 2004, U.S. Citizenship and Immigration Services (USCIS) approved 6,327 naturalization applications for members of the U.S. military as part of an expedited citizenship program. Thousands of immigrant troops are making extraordinary sacrifices for America, and there is no more fitting way for a grateful nation to demonstrate its appreciation than through expedited citizenship to those serving in the U.S. military. Members of the military who have served honorably for at least one year and who are lawful permanent residents or members who have served honorably during an authorized period of conflict, may be eligible to apply for citizenship without meeting the five-year legal permanent residency requirements for

### Overview

The Department is serving the public by facilitating lawful trade, travel and immigration. We have placed a renewed emphasis on expanding the awareness and understanding of American civic values. We are also strengthening the commitment to U.S. citizenship by promoting education and training on citizenship rights, privileges and responsibilities to preserve the integrity of the naturalization process and ensure that the immigration system promotes a common civic identity for diverse citizens. The Department is ensuring that immigration laws are being administered in an efficient, expeditious, fair and humane manner. We are streamlining processes and deploying modern information technology tools to increase the productivity of our employees. The United States remains committed to providing protection to individuals who have been persecuted and displaced. The Department is mitigating the risk posed by terrorists and criminals who attempt to exploit our commitment to those who need refuge. To provide the best service possible, the Department cultivates an organizational culture that respects the dignity and value of individuals.

The Department makes certain America continues to welcome visitors and those who seek opportunity within our shores while excluding terrorists and their supporters. Service encompasses a broad spectrum of departmental activities to provide the best, most efficient and effective system by which our trade, travel and immigration services operate. We are ensuring the Nation's borders are efficient and pose little or no obstacle to legitimate travel and trade. Work continues to facilitate and improve the flow of trade without impairing homeland security by ensuring evolving systems can meet increasing trade and travel volume and changing requirements and regulations while still ensuring the security of the Nation.

### Highlights

In fiscal year 2004, the Department made progress toward achieving Goal 6 – Service. Performance highlights in support of this goal include the following:

- Since the Department's creation, the U.S. Citizenship and Immigration Services (USCIS) has welcomed 670,000 new American citizens, including more than 8,000 military personnel, and has served more than 14 million customers via its bilingual National Customer Service Center.
- Since March 2003, USCIS has reinvigorated its workforce of 15,000 and has been working toward eliminating the backlog of immigration applications by 2006 without compromising national security. USCIS aims to process all applications, within a defined cycle time that ranges from two weeks to six months, depending on the specific benefit. USCIS began fiscal year 2004 with 6 million pending benefits applications. Of the 6 million, 3.7 million

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non-military immigrants. Naturalization applications submitted by members of the military go to a centralized location for expedited processing. Also, as a result of recent legislation, the entire naturalization process is available overseas at U.S. embassies, consulates and, where practical, military installations. Previously, all applicants for naturalization were required to be examined and sworn in while in the United States. Immediately following enactment of the legislation, USCIS officials began to conduct oath ceremonies overseas. To support rapid implementation of this new law, the USCIS Office of Citizenship has actively engaged in conducting outreach to military personnel interested and eligible in becoming citizens.

applications had already exceeded the cycle time target for their type, which we generically identified as the backlog, while 2.3 million were within the appropriate cycle time. During the course of fiscal year 2004, USCIS reduced by 1.1 million the number of applications beyond the cycle time target, leaving a total of 2.6 million applications. USCIS has adopted the strategy of focusing its backlog elimination resources first on the 1.5 million individuals awaiting benefits that would be immediately available with a positive adjudicatory decision, and for whom an excessive cycle time represents delay in the potential granting of an immigration benefit. The remaining 1.1 million applications are immigrant visa petitions on behalf of individuals for whom no visa numbers are currently available due to statutory numerical limitations. For these early submission cases, cycle time is not directly relevant to the actual availability of the benefit for which the application was submitted, so those cases, while taken in receipt order and considered active, pending cases, are no longer included in the USCIS backlog definition.

- USCIS adjudicated the refugee applications of 72,340 individuals – an increase of 60 percent over the previous fiscal year. Of this total figure, 59,530 applicants were granted refugee status. Also during the same period, 52,875 refugees were admitted to the United States. The President in consultation with Congress determines the maximum number of refugee admissions annually.
- USCIS completed 108,951 asylum cases, a 20 percent increase from the previous fiscal year, with an approval rate of 32 percent. In addition, USCIS completed 35,441 applications for benefits under section 203 of the *Nicaraguan Adjustment and Central American Relief Act*, an 18 percent increase from the previous fiscal year with an approval rate of 90 percent. The Act provides various forms of immigration benefits and relief from deportation to certain Nicaraguans, Cubans, Salvadorans, Guatemalans, nationals of former Soviet bloc countries and their dependents.
- USCIS conducts screening interviews as part of the expedited removal process, during which time any alien who asserts a fear of persecution or torture or an intention to seek asylum is referred to an asylum officer. The officer interviews the person to determine if he or she has a credible fear of persecution or torture. In fiscal year 2004, USCIS completed approximately 94 percent of credible fear cases in 14 days or less from referral, exceeding its annual performance target of 80 percent by 14 percent.
- USCIS implemented InfoPass, an Internet-based appointment scheduling initiative in every one of its districts and sub-offices. InfoPass allows customers to go online to schedule an appointment with an immigration information officer, avoiding the need to wait in line. In many instances, InfoPass, which is offered in 12 languages, has completely eliminated the lines that previously formed hours before an office opened.
- U.S. Customs and Border Protection (CBP) has strengthened the trusted traveler and trade programs known as FAST, NEXUS and SENTRI. The FAST program provides a harmonized clearance process for low-risk shipments

# Management's Discussion and Analysis

with a high-security seal carried by approved drivers, carriers and importers. In fiscal year 2004, 10 ports of entry were equipped to process more than 28,000 drivers who enrolled in the FAST program and are eligible to receive expedited processing. The NEXUS and SENTRI programs allow approved pre-registered low-risk travelers to be processed through dedicated lanes at land ports of entry with minimal or no delay. This year, CBP enrolled nearly 75,000 travelers, who may cross the U.S. border in an expedited fashion at 12 ports of entry.

- CBP has implemented the Container Security Initiative, a critical component of the Department's strategy to prevent terrorist weapons from entering the United States. Nearly 90 percent of the world's cargo moves by sea container, with almost 9 million containers entering the United States annually. By September 2004, Container Security Initiative teams have been deployed to 26 foreign ports to work with host countries to target containers that pose a potential risk of terrorism. These teams of CBP and U.S. Immigrations and Customs Enforcement personnel screen 48 percent of the worldwide maritime cargo destined for the United States.

## Trends

For fiscal year 2004, the Department established six performance measures that directly support the achievement of this goal. Of these six measures, the Department successfully met or exceeded five, or 83 percent, of the established targets. For one of the five measures classified as met, the Department did not set targets for fiscal year 2004, but collected baseline data to establish targets beginning in fiscal year 2005. In fiscal year 2003, the Department met one out of three, or 33 percent, of its targets related to this goal.

## Future Steps

The United States will continue to welcome legitimate visitors and those seeking opportunities within our nation, while preventing terrorists and their supporters from entering the country.

During the next five years, the Department will establish clear lines of responsibility and authority in U.S. Citizenship and Immigration Services to eliminate burdensome management and support functions. We will modernize immigration services by restructuring our business processes, implementing electronic filing and conducting virtual adjudications. This will eliminate backlogs and achieve the President's goal of processing immigration applications in six months or less.

To support the United States' humanitarian commitment, we will establish a Refugee Corps that will provide a strong and effective overseas refugee-processing program able to fulfill the U.S. Refugee Program's humanitarian objectives and more efficiently identify inadmissible people and those who are of national security interest.

We will work with the international trade community to facilitate and improve the flow of trade without compromising homeland security. The Automated Commercial

# Management's Discussion and Analysis

Environment will use information technology to address increasing trade volume and changing trade requirements and improve the Department's data-gathering capability. It will also streamline the filing process and reduce the paperwork burden by eliminating multiple and redundant filings required by federal agencies. We will continue to use risk-assessment tools to more effectively allocate resources to allow maximum use of staffing and minimize customer inconvenience while ensuring adequate safeguards. To facilitate lawful travel and immigration, CBP will implement a new design of its facilities starting in airports around the United States to integrate the border functions. The plan calls for combining CBP primary and secondary inspections into one. As a result, the majority of the traveling public will have less contact with CBP Officers allowing them to devote more time to those who are deemed higher risk, resulting in the better use of personnel, equipment and technology.

CBP's Passenger Accelerated Service System is under development as a replacement for the Immigration and Naturalization Service Passenger Accelerated Service System. This single integrated passenger processing system will expedite the movement of international low-risk, frequent air travelers by providing an alternative primary inspection process for pre-approved, pre-screened eligible travelers. This system will be piloted at John F. Kennedy International Airport in New York and will initially be open to members of the former system; citizens of the United States, Canada and Bermuda; Visa Waiver Program countries; and diplomats.

# Management's Discussion and Analysis

## Strategic Goal 7 – Organizational Excellence

*Value our most important resource, our people. Create a culture that promotes a common identity, innovation, mutual respect, accountability and teamwork to achieve efficiencies, effectiveness and operational synergies.*

### Serving the Public



In a joint effort with the Department of Justice, we have integrated a 10-print biometric identification technology, to enable Department personnel at U.S. ports of entry to access and search the Federal Bureau of Investigation's fingerprint database while admitting visitors into the United States. The Integrated Automated Fingerprint Identification System (IAFIS) and the Department's Automated Biometric Identification System (IDENT) provide rapid identification of individuals with outstanding criminal warrants through electronic comparison of 10-print digital finger scans against a vast nationwide database of previously captured fingerprints. The IDENT/IAFIS

### Overview

An agile and effective Department is essential to the rapid implementation of national homeland security priorities, policies and objectives. The Department values its most important resource – its people. We are creating a culture that promotes a common identity, innovation, mutual respect, accountability and teamwork to achieve our goals. The Department is integrating legacy services to improve efficiency and effectiveness. We are developing a personnel system that is flexible and contemporary, resulting in a high-performing organization. We are leading and promoting Electronic Government modernization and interoperability initiatives, optimizing interdependences and strengthening interrelationships. The Department is developing prudent budget requests and evaluating the value received for expenditures to ensure maximum benefit for taxpayer dollars. We are also aligning core processes and resources with our goals, objectives and resource expenditures.

Protecting vital and sensitive information to ensure the privacy of American citizens is important to the safety of the Nation. The Department will ensure that the technologies employed sustain – not erode – privacy protections relating to the collection, use and disclosure of personal information. We are taking steps to eliminate even the potential for inappropriate access to confidential data to preserve the individual freedom of American citizens. The goal is to maintain an appropriate balance between freedom and safety consistent with the values of our society.

### Highlights

In fiscal year 2004, the Department made progress toward achieving Goal 7 – Organizational Excellence. Performance highlights in support of this goal include the following:

- Nineteen financial management systems were streamlined to reduce the number of financial management centers to 10 and enable the Department to readily access bureau financial data, conduct department-wide financial analyses and make sound financial decisions.
- Created a streamlined grant process by eliminating multiple applications and consolidating various administrative procedures into a single process. This greatly reduced the time in which funding can be made available. During fiscal year 2004, five distinct programs, the State Homeland Security Grant Program, the Law Enforcement Terrorism Prevention Grant Program, the Citizen Corps Grant Program, the Urban Areas Security Initiative and the Mass Transit Security Program were integrated into two consolidated grant programs.

# Management's Discussion and Analysis

program is fully operational within all 140 Border Patrol stations, and as part of US-VISIT deployment at 115 air and 14 sea ports of entry and the largest land border ports. In 2005, remaining ports of entry and all U.S. Immigration and Customs Enforcement (ICE) field locations will deploy this capability. To date, the IDENT system, which forms the backbone of the US-VISIT program, has identified 287 criminals and other inadmissible aliens seeking admission to the United States. In one scenario, the IDENT system received a report from the FBI of an alien with an outstanding warrant for rape in New York after he had entered the United States. The alien was initially able to escape capture. However, when he attempted to re-enter the country, officials found that there was a lookout for him when they accessed US-VISIT and arrested him.

- The Department has been able to consolidate 13 separate contracting offices from detached legacy organizations to establish a procurement program comprised of eight component organizations. Similarly, 22 different human resources servicing offices have been consolidated down to seven. The Department has consolidated eight different payroll systems currently down to three and will be using one single payroll system by the end of the year.
- The Department formulated its first enterprise architecture, which is a comprehensive description of the Department's current and future business strategies and supporting technologies. By doing so, the enterprise architecture will be able to highlight overlapping, duplicative initiatives and identify financial inefficiencies, resulting in cost savings for taxpayers.
- The Department negotiated enterprise licenses with Microsoft, Oracle and Autonomy representing savings of about \$96 million over five years. Several more licenses are being negotiated with suppliers in information security, business intelligence and technical systems management.
- The Department established a centralized Network Operations Center that monitors, manages and administers its core network, providing connectivity to all its organizational elements.
- DHSOnline, an enterprise-wide intranet, was created and made available to more than 56,000 registered users with a potential user base of more than 180,000 department employees. As a communications tool, DHSOnline has been integral in unifying employees on a real-time basis.
- U.S. Customs and Border Protection (CBP) has unified its operations and workforce to show one face to the traveling public and trade. At the ports of entry, 18,000 Customs, Immigration and Agriculture Inspectors united to establish a new frontline team – the CBP Officer and CBP Agriculture Specialist. They now share a single compensation system for overtime and premium pay. New uniforms and patches were introduced, and new badges were issued – the first Department of Homeland Security law enforcement badges. CBP Border Patrol Agents, who secure between the ports of entry, are an integral part of CBP's officer corps to make up CBP's frontline force. CBP invested more than 250,000 staff days in 2004 to train frontline officers to meet CBP's primary anti-terrorism mission and traditional missions. CBP also developed and implemented basic training to provide new officers with the knowledge and skills to perform the duties of the frontline officer.
- CBP is building a new information system to support its processing, targeting and analysis activities. Since being deployed in fiscal year 2004, the Automated Commercial Environment has been used to process more than \$32 million in periodic payments. Participation has increased by more than 200 trained personnel and more than 90 members of the trade community (representing 37 large U.S. firms and 17 carriers), more than 160 importer, broker and carrier accounts, and 115 Automated Commercial Environment Ambassadors.

# Management's Discussion and Analysis

## Trends

For fiscal year 2004, the Department established four performance measures that directly support the achievement of this goal. Of these four measures, the Department successfully met or exceeded three, or 75 percent, of the established targets. For two of the three measures classified as met, the Department did not set targets for fiscal year 2004, but collected baseline data to establish targets beginning in fiscal year 2005. In fiscal year 2003, the Department did not have measures related to this performance goal.

## Future Steps

An agile and effective Department is essential to the rapid implementation of homeland security priorities, policies and objectives. We are establishing processes to recruit and retain the best people to provide effective and efficient services that ensure American citizens get the most value for their tax dollars. The Department will continue to communicate critical information to ensure stakeholders are informed and our people remain focused on getting the job done. We will maintain continual and unquestionable accountability and responsibility to ensure the effective use of resources allocated to the Department.

All elements of the Department will continue to ensure the core principles of organizational excellence are incorporated into our planning, programming and budgeting plans. During the next five years, our recapitalization efforts will include modernization that retains needed structure with enhanced capacity. We will invest in areas critical to achieving our mission, where our required capability is inadequate or where technology offers the prospect of decisive, transformational improvement in capability. Specific emphasis will be placed on eliminating systems where technology is obsolete or redundant, the usage rate is low, or the contribution to mission effectiveness is suspect or minimal. We will also implement a unified, modern, performance-based personnel system and will educate and train homeland security professionals and our partners.

# Management's Discussion and Analysis

## Financial Highlights

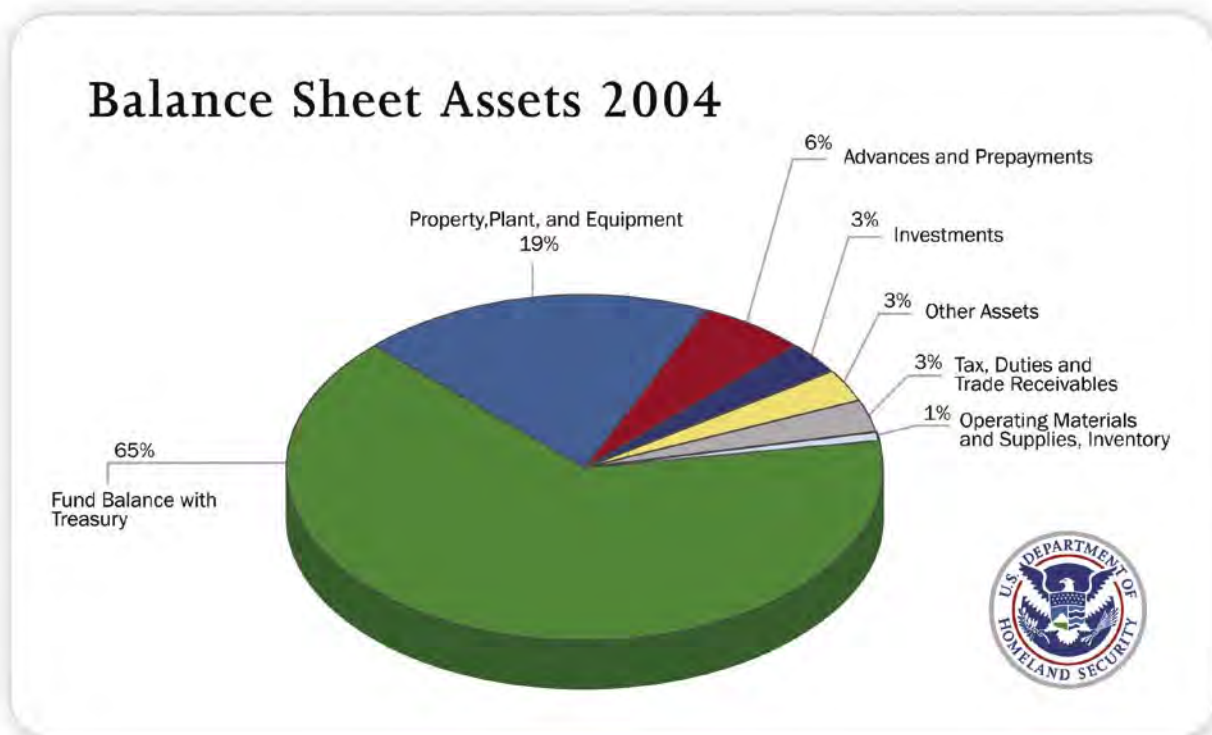
The Department of Homeland Security prepares the following financial statements to demonstrate accountability and control of funds:

- Consolidated Balance Sheet;
- Consolidated Statement of Net Cost;
- Consolidated Statement of Changes in Net Position;
- Combined Statement of Budgetary Resources;
- Consolidated Statement of Financing; and
- Statement of Custodial Activity.

The following sections provide a brief description of each financial statement and significant categories.

### Consolidated Balance Sheet

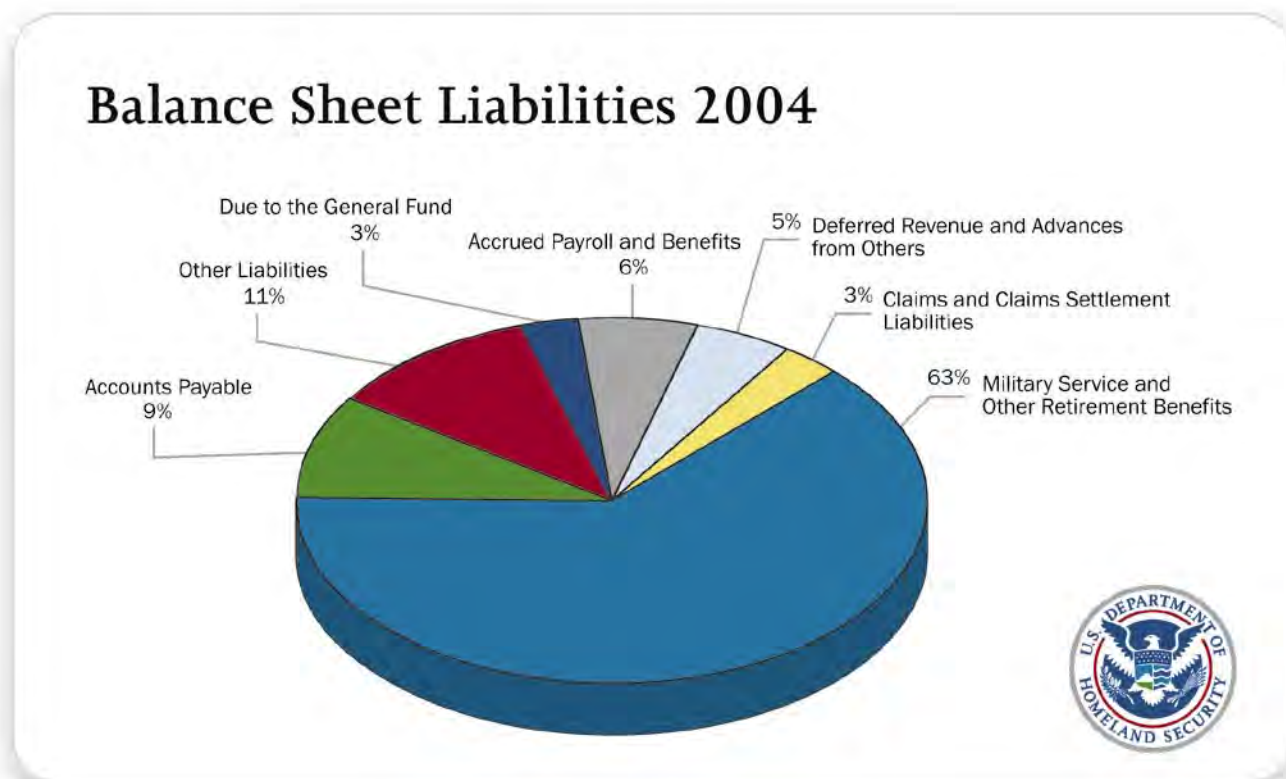
The Balance Sheet presents amounts of future economic benefits owned or managed by the Department (assets); amounts owed by the entity (liabilities), and amounts which comprise the difference (net position). As of September 30, 2004, the Department's total assets were \$51 billion. The Department's major categories of assets, as a percentage of total assets are presented in the table below.





# Management's Discussion and Analysis

As of September 30, 2004, the Department reported liabilities of \$42 billion. The Department's major categories of liabilities, as a percentage of total liabilities are presented in the table below.

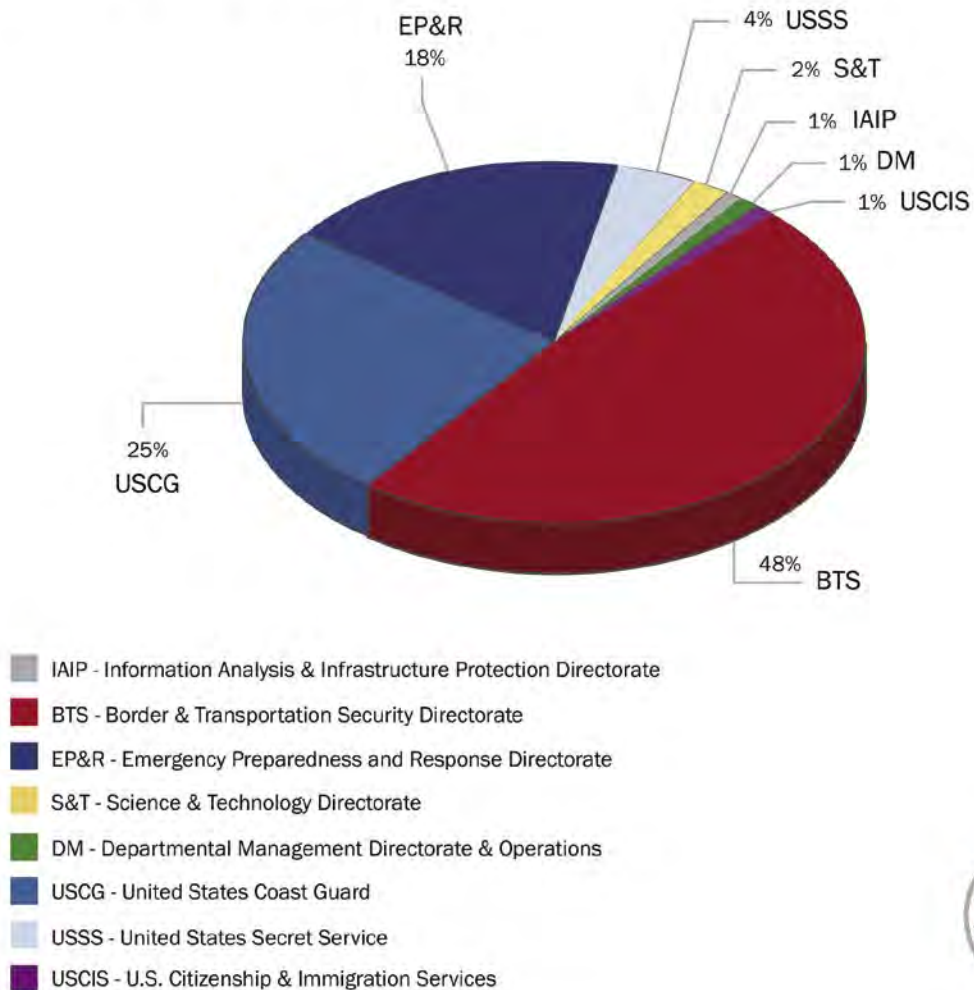


## Consolidated Statement of Net Cost

The Statement of Net Cost displays the components of the net cost of the Department's operations for fiscal year 2004. The gross cost less any offsetting revenue for each responsibility segment is used to arrive at the net cost of operations. A responsibility segment is a Department component that carries out a mission or major line of activity and whose managers report directly to departmental management. Net costs are linked to the Department's strategic goals by responsibility segment in the Other Accompanying Information section of this report. The following chart illustrates the results of net costs among departmental responsibility segments.

# Management's Discussion and Analysis

## Net Cost 2004



The Department's total net cost of operations for fiscal year 2004 equaled \$33 billion. The Border and Transportation Security (BTS) Directorate represents the largest investment for the Department at 48 percent of the Department's net cost of operations and includes the following components:

- BTS Office of the Undersecretary;
- US-VISIT Program;
- U.S. Customs and Border Protection;

# Management's Discussion and Analysis

- U.S. Immigrations and Customs Enforcement;
- Transportation Security Administration;
- Federal Law Enforcement Training Center; and
- Office of State and Local Government Coordination and Preparedness (formerly the Office for Domestic Preparedness).

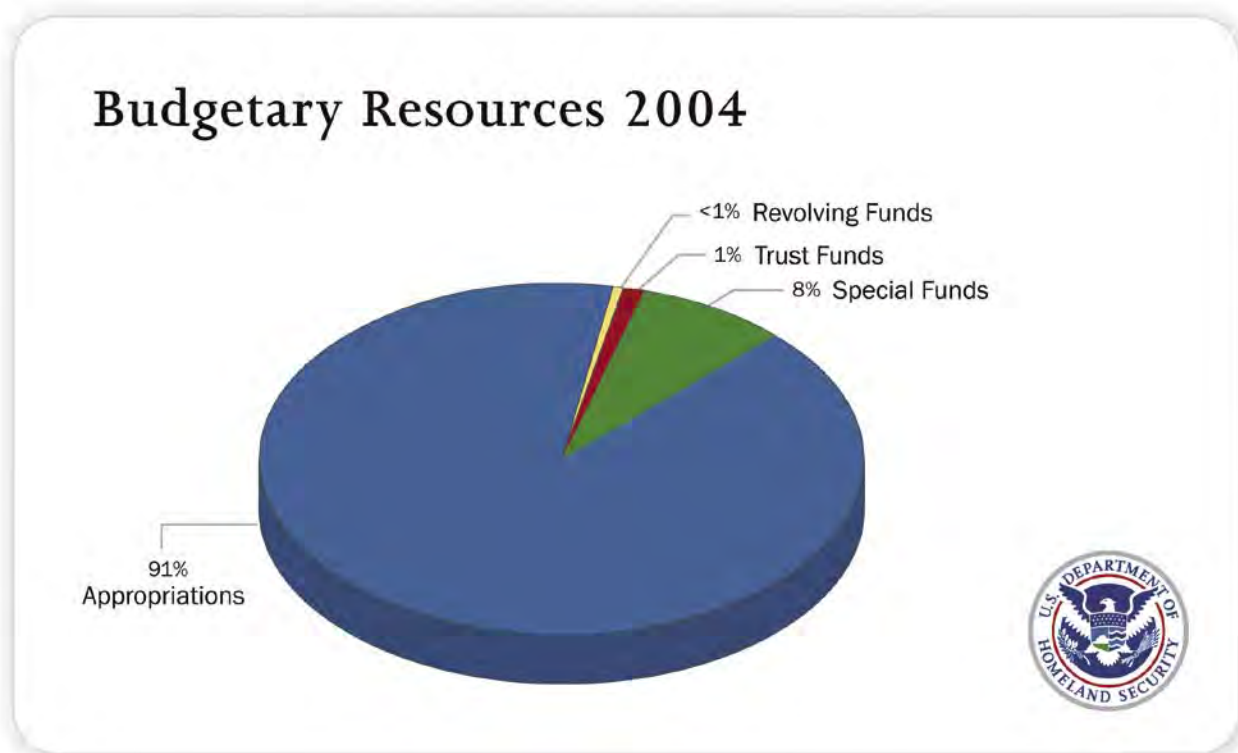
The Net Cost of operations for the remaining responsibility segments ranged from 1 percent to 25 percent.

## Consolidated Statement of Changes in Net Position

The Statement of Changes in Net Position presents the accounting items that caused the Net Position section of the Balance Sheet to change since the beginning of the fiscal year. Appropriations used totaled \$28 billion, comprising 90 percent of the Department's total revenues and financing sources.

## Combined Statement of Budgetary Resources

The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of fiscal year 2004. For fiscal year 2004, the Department had budgetary resources of \$54 billion, which consists primarily of appropriated funds as displayed below.



The statement's relationship of obligations to outlays section indicates the ratio of funds obligated by the Department to actual payments made by the Department. This section also reconciles outlays with obligations incurred and indicates the change in obligated balances during the year.

# Management's Discussion and Analysis

## Consolidated Statement of Financing

The Consolidated Statement of Financing is the bridge between the Department's budgetary and financial accounting. It articulates the relationship between net obligations derived from budgetary accounts and net cost of operations derived from proprietary accounts by identifying and explaining key differences between the two numbers.

## Statement of Custodial Activity

The Statement of Custodial Activity presents non-entity revenue and refunds using a modified cash basis. With this method, revenue from cash collections are reported separately from receivable accruals, and cash disbursements are reported separately from payable accruals. The Department's net collection for fiscal year 2004 totaled \$24 billion. This revenue collected by the Department on behalf of the Federal Government included various taxes, primarily duties on imported goods, user fees, fines and penalties and other revenue.

The preliminary estimated total net underpayment for fiscal year 2004 was \$313 million, representing a revenue gap of 1.3 percent. The revenue gap is the measure of import duties actually collected by U.S. Customs and Border Protection (CBP) versus projected duties had all goods been entered in full compliance with U.S. trade laws, regulations and agreements. The revenue gap is used by CBP, along with trade compliance data, to assess areas that can be targeted for improved compliance and to support informed and enforced compliance activities within the trade community.

## Working Capital Fund

Department of Homeland Security's Working Capital Fund was established pursuant to *Section 506 of Public Law 108-90*. The fiscal year 2004 Working Capital Fund account anticipates \$21 million in direct obligations and \$97 million in reimbursable obligations including budget authority from offsetting collections.

The Working Capital Fund will grow substantially in fiscal year 2005. The fund plans to add several information technology programs that amount to approximately \$400 million in budget authority through offsetting collections. These programs include information technology initiatives, such as infrastructure transformation and the information technology solutions management center. Currently, the Working Capital Fund cannot retain income for the Department's initiatives. Customers are billed only what is expensed through the Working Capital Fund.

## Bankcard Programs

The chart included below summarizes the business accomplished through the Department's bankcards since October 1, 2003, when program implementation began. With more than \$647 million having been spent in more than 3 million transactions, the Department's dependence on these cards has increased steadily during fiscal year 2004. As an example, August 2004 purchase cardholders spent more than \$41 million to quickly and easily buy goods and supplies to support the mission of the Department.

Bank	US Bank	Citibank	Bank One
Business Line	Purchase	Travel	Fleet
Cards Issued	15,000	118,000	34,000
Transactions	780,000	1,452,000	1,118,000
Dollars Spent	\$296,811,000	\$295,507,000	\$54,816,000

# Management's Discussion and Analysis

**Purchase Card** – A contractor-issued government charge card for use by Department employees to purchase goods and services that cost less than \$2,500. The purchase card is the preferred method for buying goods and services under \$2,500.

**Travel Card** – A contractor-issued government charge card for use by Department employees authorized to travel to pay for lodging, meals and transportation costs. Cardholders pay their bills through reimbursement through the voucher process.

**Fleet Card** – A contractor-issued government charge card for use by Department employees to purchase: fuel, emergency repairs, toll passes and fluid for mobile assets such as vehicles, vessels, aircraft and other equipment. It may also be used to acquire bulk fuel under contract by the government or through commercial sources.

# Management's Discussion and Analysis

## Financial Management Plans and Corrective Actions

The Department of Homeland Security was required to obtain an audit opinion in the first two years of operation to develop a baseline inventory of financial management issues. The Department has also held monthly corrective action plan meetings with each organizational element to work on the prior year material weaknesses. The Department is actively involved in developing a five-year financial management plan to respond to the recently enacted *Department of Homeland Security Financial Accountability Act of 2004*. The Department also has in place the criteria to continue the accelerated reporting effort and plans to improve future audit opinions. There is also a grant program in place that has enabled the Department to have online access for grant information.

During fiscal year 2004, the Department made tremendous strides in improving our financial reporting processes through:

- Improving the accuracy and timeliness of consolidated financial statement submissions through the use of the Department of Treasury's Information Executive Repository and Chief Financial Officer (CFO) Vision Software;
- Implementing an electronic interface between Treasury's Information Executive Repository and all the Department's organizational elements;
- Reconciling the *U.S. Standard General Ledger* software coding in Treasury's Information Executive Repository and its mapping to CFO Vision Software to ensure departmental financial statements are prepared in accordance with applicable accounting standards;
- Developing analytical procedures to ensure the Department's organizational elements are consistently interpreting *U.S. Standard General Ledger* requirements;
- Producing standard operating policies and procedures for all financial reporting elements of the Department's *Performance and Accountability Report*;
- Initiating procedures for a systematic, organized and structured approach for preparing and reviewing agency financial statements and related disclosures; and
- Implementing procedures and related controls to ensure compliance in the *Federal Financial Management Improvement Act* process.

To improve on our financial reporting progress in fiscal year 2005, the Department plans to assess component financial performance against the following measures:

- The number of components with accounting and auditing matters;
- The percentage of financial reporting weaknesses that could result in material errors;
- The timeliness of financial statement production including quarterly statements; and
- The number of internal control findings.

Ultimately, these performance measures will focus the Department's efforts on quality and timely financial information that will enable us to incorporate accurate financial information into departmental managers' decision-making on a routine basis.

This is all part of our effort to obtain an unqualified audit opinion on all financial statements and also for continuing our effort to improve our current standard for audit. The Department has developed procedures and guidance that will enable us to continue our process of accelerated reporting. It has been a tremendous workload exercise for the Department to go from submitting our fiscal year 2003 *Performance and Accountability Report* in February 2004 to submitting our fiscal year 2004 *Performance and Accountability Report* to the Office of Management and Budget in November 2004.

# Management's Discussion and Analysis

## Financial Management Systems Framework

In the Department's inaugural year, we inherited a myriad of redundant financial management systems across 22 diverse agencies. In August 2003, the Department initiated plans to meet the requirements of relevant financial management improvement laws through establishing the CFO's Resource Management Transformation Office. The Office has termed the Department's financial enterprise solution project Electronically Managing Enterprise Resources for Government Effectiveness and Efficiency (eMerge<sup>2</sup>). The eMerge<sup>2</sup> program sets the strategic direction for migration, modernization and integration of Departmental financial, accounting, procurement, personnel, asset management, and travel systems, processes and policies. Initial eMerge<sup>2</sup> successes and initiatives focused on;

- Developing an inventory of baseline financial management and mixed systems;
- Assessing major system problems and incorporated existing known deficiencies into eMerge<sup>2</sup> derived requirements;
- Enlisting the strong involvement of key stakeholders and top management throughout the acquisition phase; and
- Incorporating *Federal Financial Management Improvement Act* and Joint Financial Management Improvement Program requirements into system specifications.

In September 2004, the Department selected the prime contractor for the eMerge<sup>2</sup> program and began a conference room pilot. The pilot provides the Department the opportunity to test the complete proposed solution with real-life business scenarios drawn directly from the approved common core requirements before beginning implementation. Implementation will impact all the Department's organizational elements and will include migration and integration strategies. The order of implementation of the eMerge<sup>2</sup> solution will be based on the following elements:

- Components with the greatest needs will receive the solution first;
- Assessments will identify strengths and weaknesses of the organizational elements' existing solutions to ensure integration and interoperability;
- Functional integration in current and target environments;
- Lifecycle cost;
- Accommodation of current component environment and initiatives; and
- Utilization of commercial off-the-shelf products and minimize customization.

The Department expects the financial enterprise solution to be fully deployed and operational over a three year period. The solution's core functional capabilities will include five domains:

- Accounting and Reporting – ability to manage general ledger and financial reports through a unified classification structure with a common chart of accounts and near/real-time posting.
- Budget – ability to develop and compile budget justifications, conduct “what if” scenarios and respond to external oversight party inquiries (e.g., Congress).
- Acquisition and Grants – Process, administer and report on acquisition contracts and grants, award and contract performance evaluation; application enabled workflow to remove manual activities, and initiative strategic sourcing.
- Asset Management – Accountability and tracking of capital and special-interest items.
- Cost and Revenue Performance Management – Ability to monitor against projected cost revenue.

# Management's Discussion and Analysis

Our vision for the Department's future financial enterprise is depicted below.



## Grants Management

In fiscal year 2004, the Department issued a Management Directive (*MD 0772*), requiring Department awarding offices to use Grants.gov FIND to post grant opportunities. Grants.gov allows organizations to electronically find and apply for competitive grant opportunities from all federal grant-making agencies. It is the responsibility of the Office of Grant Policy and Oversight to oversee that all grant award opportunity postings are in compliance with statute, regulations, executive orders and other government-wide mandates. In order to assure that the Department's awarding offices are in compliance with Grants.gov FIND posting requirements and to have consistency within the Department, the Office is directly responsible for posting and maintenance of the Grants.gov FIND portal.

In fiscal year 2004, the Department executed Management Directive, (*MD 0715*), requiring all awarding offices to notify applicants and recipients of grant awards or cooperative agreements that they must obtain a Dun & Bradstreet Data Universal Numbering System number when applying for federal grants or cooperative agreements on or after October 1, 2003.

The posting of grant opportunities and the posting of the synopses using the government-wide standard data elements is required under the Department's Management Directive (*MD 0772*) *Posting Solicitations on Grants.gov*. All awarding offices have been notified of this requirement through an internal notification titled *Grant Alert*. In addition, the Department's Office of Grant Policy and Oversight has responsibility to monitor the compliance of this government requirement.



# Management's Discussion and Analysis

The Department is scheduled to participate in the Grants.gov APPLY process, as soon as the eMerge<sup>2</sup> Enterprise Solution is implemented. In fiscal year 2004, several of our programs were administered through outsourcing with other federal agencies. The Department did not have the capability to interface with the Grants.gov APPLY portal. Until the Department has the financial and grant management line of business capability, we are reliant on other agencies to administer some of our programs. It is anticipated, that coordination with Grants.gov will be commenced in October 2004. The Department anticipates full compliance with this requirement by fiscal year 2006. We will work with Grant.gov staff to develop a program participation schedule as soon as the eMerge<sup>2</sup> Enterprise Solution is determined.

It is anticipated that the Department will process the grant management regulations, e.g. *OMB Circular A-102, A-110, A-133*, etc., in line with the other regulations that a newly established Department is required to implement. Grant-sponsored program regulations will be transferred and/or developed as directed by statute as the Office of General Council determines.

# Management's Discussion and Analysis

## Improper Payments

To comply with the requirements of the *Improper Payments Information Act of 2002* and related guidance from the Office of Management and Budget (OMB), the Department initiated a plan in fiscal year 2004 to reduce its susceptibility to issuing improper payments. The Department also took steps to speed up the identification and recovery of improperly disbursed funds.

To reduce the issuance of improper payments, each organizational element completed a risk assessment of major programs. Programs were defined under the *Future Years Homeland Security Program* system with major programs exceeding \$100 million in non-payroll annual disbursements. Programs with less annual disbursement were assumed to be too small to have \$10 million at risk (the reporting floor listed in the *Improper Payments Information Act of 2002*). Payroll disbursements were excluded because of their repetitive, stable nature and the extensive internal controls they are subjected to.

An overall risk score was assigned to each major program based on internal control, human capital, programmatic risk and materiality of operating budget risk factors. An overall risk score above 3.0, on a scale of 1-5, identified a program as susceptible to issuing improper payments. The fiscal year 2004 program risk assessment did not identify a single departmental program as susceptible to significant improper payment risk.

In fiscal year 2005, each organizational element will perform a statistically valid sample of its largest major program to verify the accuracy of the fiscal year 2004 program risk-assessment score. To produce auditable, estimated erroneous payment amounts and rates, each significant payment control environment (contracts, travel, grants, inter-agency agreements, etc.) will have a statistically significant random sample of payments reviewed for errors. Results will be combined to compute an estimated improper payment amount and rate for each sampled program. Findings will be used to refine future year program risk-assessment criteria.

Programs with estimated improper payment amounts above \$10 million will develop and implement OMB approved corrective action plans. Payment sample testing will be performed. The Department will report results quarterly, beginning in fiscal year 2005, to OMB under the *President's Management Agenda* Improper Payments Program Initiative. Management's goals are to eliminate improper payments, to adopt best payment practices and to fully comply with the *Improper Payments Information Act of 2002*.

During fiscal year 2005, the Department will develop and implement improper payment procedures specific to grants. These procedures will cover each stage of the payment chain, from organizational element to final recipient. Currently, grant testing is included under the larger *Future Years Homeland Security Program* programs discussed above.

To comply with Section 831 of the *Defense Authorization Act for Fiscal Year 2002*, a recovery audit firm was hired to identify improper payments made by U.S. Customs and Border Protection and U.S. Immigrations and Customs Enforcement. Initial findings should be available in the first quarter of fiscal year 2005. If results warrant, recovery audit work may expand to include other organizational elements.

# Management's Discussion and Analysis

## Management Highlights

### Introduction

The aftermath of September 11<sup>th</sup> made clear that the Nation lacked a centralized effort to defend the country against terrorism. In order to prevent future attacks, a new approach was necessary. Establishment of the Department of Homeland Security brought together disparate federal entities and capabilities under one central authority to better coordinate and direct our homeland security efforts. From the outset, we made it clear: We are an agency in a hurry. We are relentlessly in pursuit of our goals — the foremost being the preservation of our freedoms and our security.

Measuring success and identifying outcomes are challenging for an agency whose central mission is one of prevention. Internally, progress can be measured in terms of whether initiatives are completed within proposed timeframes. Outcomes, however, are more difficult to measure. There is no question the Department has helped disrupt terrorist networks, thwarted planned attacks and better trained and prepared the Nation for any future attacks. But in an age when threats come packaged in a suitcase or envelope and when terrorists have access to Internet technologies, the war against terror has been and will continue to be hard fought and evolving. It is in this context that the Department has developed a system of strategic planning to guide our actions. Our governance processes span the spectrum from strategy to execution, ensuring that our actions are aligned with our vision: Preserving our freedoms, protecting America ... we secure our homeland.

Six systems have been developed to guide and evaluate the Department's execution of its mission and the allocation of its resources: the Strategic Plan; the *Future Years Homeland Security Program*; the Planning, Programming, Budgeting and Execution System; the Performance Measurement and Reporting System; and the Joint Requirements Council and Investment Review Board. A description of each of these key systems is provided below.

- **Strategic Plan** — The Strategic Plan articulates the mission, vision, guiding principles, strategic goals and objectives that reflect the Department's priorities. The strategic goals encompass the full spectrum of activities occurring across the organization and serve as a basis for reporting and reviewing results. These goals provide the centerpiece during formulation of future plans and resource estimates. Each goal is explained in Part III, Performance Information, and is accompanied by a discussion of the results achieved during fiscal year 2004. These goals, developed by the Department's executive leadership, flow from the *National Strategy for Homeland Security* and the *Homeland Security Act of 2002*.
- **Future Years Homeland Security Program** — Pursuant to Section 874 of the *Homeland Security Act of 2002*, the Department prepared a *Future Years Homeland Security Program* — a five-year resource plan that reflects the vision of how the Department intends to preserve our freedoms and protect the Homeland. Based on threat and vulnerability assessments, this plan reflects a strategic approach to budgeting and a long-term view in articulating departmental priorities in accordance with the strategic goals. As a planning document, the *Future Years Homeland Security Program* is the culmination of efforts to examine departmental priorities and assess the five-year ramifications of program and budget decisions. It guides the Department's annual budget requests.
- **Planning, Programming, Budgeting and Execution System** — To support development of the *Future Years Homeland Security Program*, the Department implemented the comprehensive Planning, Programming, Budgeting and Execution System. This system is a strategic decision-making process that links strategic direction in light of threat assessments and resource constraints to the thousands of detailed readiness actions needed to perform the Department's mission.
- **Performance Measurement and Reporting** — To achieve results, it is essential that the Department continue to align its activities, core processes and resources to its strategic goals, objectives and resource expenditures. The Department established performance goals and measures of effectiveness to support each of its strategic goals. From this baseline, all levels of the Department rigorously assess, evaluate, measure and report performance, as well as appropriately allocate resources to ensure effective stewardship of taxpayer dollars. Performance and financial information are

# Management's Discussion and Analysis

integrated to enable managers to make decisions regarding future investments that most effectively reach strategic goals. These decisions are reflected in the *Future Years Homeland Security Program* and in the Department's annual budget requests. The performance goals, measures and results for fiscal year 2004 for each of our strategic goals are provided in Part III, Performance Information.

- **Joint Requirements Council and Investment Review Board** – The Department established forums to achieve the best results from its initial budget of more than \$30 billion. The Joint Requirements Council and Investment Review Board take a department-wide view of potential investments and recommend the allocation of resources where they can deliver the most benefit. The council identifies, prioritizes and evaluates crosscutting opportunities and common requirements within the Department to ensure optimal allocation of resources to best serve the American public. The Investment Review Board reviews large investments for inclusion into the annual budget process and resolves investment-related issues within the Department. The Board is chaired by the Deputy Secretary with the Under Secretary for Management as the Vice Chair. Members are the Under Secretaries for Border and Transportation Security, Emergency Preparedness and Response, Science and Technology, and Information Analysis and Infrastructure Protection, the Deputy Chief of Staff for Policy, Chief Information Officer, Chief Financial Officer (CFO), Chief Procurement Officer, Privacy Officer and the General Counsel. Specifically, the Council and the Board review major capital investments to:
  - Integrate departmental priorities, resource planning, investment control, budgeting, acquisition and investment management to ensure resources are used wisely;
  - Ensure that spending directly supports and furthers the Department's mission and provides optimal benefits and capabilities to stakeholders and customers;
  - Identify poorly performing programs and investments so corrective actions can be taken; and
  - Identify duplicative efforts for consolidation and mission alignment when it makes good sense or when economies of scale can be achieved.
- **Financial Reporting** – During fiscal year 2004, the Department improved the accuracy and timeliness of consolidated financial statement submissions through the use of the Department of Treasury's Information Executive Repository and CFO Vision Software. The Department also implemented an electronic interface between the repository and all the Department's organizational elements and reconciled the *U.S. Standard General Ledger* software coding in the repository and its mapping to CFO Vision Software to ensure departmental financial statements are prepared in accordance with applicable accounting standards. The Department has also developed analytical procedures to ensure its organizational elements are consistently interpreting *U.S. Standard General Ledger* requirements and produced standard operating policies and procedures for all financial reporting elements of the Department's *Performance and Accountability Report*.

During 2004, the Department's management emphasis was concentrated on the following areas:

- The Department has been able to consolidate 13 separate contracting offices from detached legacy organizations to draw together a procurement program comprised of eight of its organizational elements. Similarly, we've been able to consolidate 22 different human resources servicing offices down to seven and consolidate 271 processes associated with administrative services, such as mail management and printing and graphics, down to 103.
- Effective October 2003, the CFO ended the continuation of financial management services provided by the legacy agencies. Essentially, the accounting business lines previously provided by the Departments of Commerce, Defense, Energy, Health and Human Services, Justice and Agriculture, and the General Services Administration were consolidated and are now provided in-house. This streamlining of financial management functions reduced the number of financial management centers from 19 to 10, which enables the Department to more readily access bureau financial

# Management's Discussion and Analysis

data, conduct department-wide financial analyses, and make sound financial decisions. We continue to work toward further consolidation of financial management processes and systems.

- As part of our merger and acquisition efforts, the Department conducted a business transformation by realigning more than 6,000 support services employees (both government and contractor) from the legacy U.S. Customs Service and the legacy Immigration and Naturalization Service to support the 68,000 employees of the U.S. Customs and Border Protection (CBP), U.S. Immigration and Customs Enforcement (ICE) and U.S. Citizenship and Immigration Services (USCIS) organizations.
- Information technology has played a vital role in the successful merging of 22 organizational elements from within the Federal Government. The Department has implemented planning, negotiation and implementation support for the vast information technology systems and services that each of these organizations needed to continue to do their vital jobs while moving into their new physical and organizational configurations. At the same time a new system was being created, the Department ensured that all information technology support requirements continued to be met. This challenge was being accomplished while minimizing the overall cost to the Department of providing administrative and mission services.
- In just four months, the Department accomplished something unique in the Federal Government — we designed and delivered a comprehensive and immediately useful target enterprise architecture. Future versions of the enterprise architecture will further align information technology investments with mission and business needs and improve data sharing and interoperability with departmental partners.
- The Department has officially unveiled, through the federal regulatory process, its newly proposed, performance-based and mission-oriented Human Resources Management System. In one year's time, the Department assembled a human resources system design team comprised of departmental managers and employees, human resources experts from the Department and the Office of Personnel Management, and representatives from the Department's three largest labor unions, that studied and prepared options for transforming the Department's Human Resources Management System and finalized the policy for the new system in alignment with the Department's unique mission.
- The Department has implemented new and consolidated acquisition policies and procedures (Homeland Security Acquisition Regulations and Homeland Security Acquisition Manual) that are among the most flexible in the entire Federal Government. Under them, red tape could be slashed for "commercial item" contracts of \$7.5 million or less — 50 percent higher than most agencies — and regulations may be bypassed altogether for so-called "micro-purchases" under \$7,500 — triple the normal amount.
- The Department has undertaken a new resource transformation initiative called eMerge<sup>2</sup>. This effort is a business-focused program that will deliver a consolidated enterprise solution and will implement a back-office operation that will consolidate and integrate budget, financial management, procurement and asset management capabilities. Once developed, the plan is to roll the system out in phases with organizations most in need of improved basic financial management services being the first to be brought online. Once fully implemented, eMerge<sup>2</sup> will result in financial savings by eliminating the need to maintain costly, duplicative systems. It will also improve departmental oversight and accountability of component operations in the budget, financial management, procurement and asset management areas.
- Consolidated bankcard programs throughout the Department from 27 to three and moved to a daily billing and payment system, which will double the amount of rebates received department wide.
- The Department completed the transfer of assistance programs from legacy agencies and produced a *Catalog of Federal Domestic Assistance*. This listing provides the public with a government-wide resource that identifies financial assistance programs that address preparedness, mitigation and/or recovery programs sponsored by the Department. In addition, the Department has developed a grants portal that lists the programs available to support preparedness and recovery programs.

# Management's Discussion and Analysis

- The Department is one of the first federal agencies to create and embrace a formal mentor-protégé program. This program is designed to motivate and encourage large business prime contractors to provide mutually beneficial developmental assistance to small businesses, veteran-owned small businesses, service-disabled veteran-owned small businesses, Historically Underutilized Business Zone (HUB Zone) small businesses, small disadvantaged businesses and women-owned small businesses.
- The Office of Small and Small Disadvantaged Business Utilization has created a robust and innovative outreach program for its constituency. Outreach includes counseling on how to market to the Department and its buying activities and provides opportunities for these small businesses to engage both Federal Government employees and large business concerns that may be interested in the supplies or services these firms offer.
- In order to affect an integrated and successful program, the Chief Information Security Officer consolidated the entire Department's Information Systems Security Programs into an overarching, single program.
- Established department-wide program for strategic sourcing and supply chain management. Specifically, initiated 14 cross-functional commodity councils tasked with creating sourcing strategies for goods and services acquired throughout the Department. Councils govern a wide range of requirements, from simple items such as office supplies, to more sophisticated requirements, such as boats and their maintenance, or complex information technology infrastructure needs.
- The Department's Asset Management System was implemented on October 1, 2003, to provide the Department with an effective and efficient method of capturing accurate, relevant and timely information regarding our assets.

# Management's Discussion and Analysis

## Management Controls

### Introduction

A number of laws require agencies to establish management controls and financial systems that reasonably assure the integrity of federal programs and operations. These laws also require that the head of the agency, based on an evaluation, provide an annual Statement of Assurance regarding whether the agency met the requirements. The Department evaluated its management control, financial management and information security systems for the fiscal year ended September 30, 2004. To identify and qualify weaknesses, we used the following criteria:

- Significantly impairs the fulfillment of the Department's mission;
- Deprives the public of needed services;
- Significantly weakens established safeguards against waste, loss, unauthorized use or misappropriation of funds, property, other assets or conflicts of interest; or
- Merits the attention of the Secretary, the President or a relevant congressional oversight committee.

Our evaluation provided reasonable assurance that most of the objectives of the laws concerning these areas were achieved. In instances where they were not achieved, failure to achieve the objectives did not impair the Department's ability to perform its mission. The Secretary of Homeland Security's qualified Statements of Assurance for fiscal year 2004 are included in the Secretary's letter at the beginning of this report.

Based on internal management evaluations, and in conjunction with the results of independent financial statement audit, the Department, except as noted in Part I, Management's Discussion and Analysis Section, and Appendix B, the Independent Auditor's Report, can provide reasonable assurance that the objectives of Section 2 (Management Controls) and Section 4 (Financial Management Systems) of the *Federal Managers' Financial Integrity Act* have been achieved. We are in the process of correcting these issues, as well as auditor-identified weaknesses in internal controls reported this year.

Department wide, there are 10 material weaknesses as of September 30, 2004. Summary information on each material weakness is provided within Appendix B, the Independent Auditor's Report.

The Department began fiscal year 2004 having seven independent auditor-identified material weaknesses. The Department has been forthcoming in identifying its weaknesses and conscientious in developing corrective actions to resolve its new and existing challenges. We are confident the Department's progress will continue in fiscal year 2005.

### Compliance with the *Federal Managers' Financial Integrity Act*

The management control objectives under the *Federal Managers' Financial Integrity Act* are to reasonably ensure that:

- Programs achieve their intended results;
- Resources are used consistent with overall mission;
- Programs and resources are free from waste, fraud and mismanagement;
- Laws and regulations are followed;
- Controls are sufficient to minimize any improper or erroneous payments;

# Management's Discussion and Analysis

- Performance information is reliable;
- System security is in substantial compliance with all relevant requirements; and
- Continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels.

During fiscal year 2004, the Department had an increase of three material weaknesses. Ten material weaknesses are outstanding as of September 30, 2004.

## **Federal Managers' Financial Integrity Act - Section 2, Management Controls**

Section 2 deficiencies address weaknesses in management controls within the agency. During fiscal year 2004, three new material weaknesses were identified. Areas with internal control deficiencies, which affect full compliance with the Section 2 objectives of the *Federal Managers' Financial Integrity Act*, were cited by the following organizational elements:

- Financial Management & Personnel at the Department/Chief Financial Officer and U.S. Immigration and Customs Enforcement (ICE);
- Financial Reporting at the ICE, U.S. Coast Guard (USCG), Emergency Preparedness & Response, Office of Domestic Preparedness (ODP);
- Property, Plant and Equipment at the USCG and ICE;
- Operating Materials and Supplies at the USCG and U.S. Secret Service;
- Fund Balance with Treasury at the USCG and ICE;
- Accounts Payable and Undelivered Orders at the USCG, ICE and U.S. Citizenship and Immigration Services (USCIS);
- Budgetary Accounting at the USCG, ICE and Federal Emergency Management Agency;
- Intragovernmental and intra-departmental balances department wide; and
- Undelivered Orders, Accounts and Grants Payable, and Disbursements at USCG, ICE, ODP and the Transportation Security Administration.

## **Federal Managers' Financial Integrity Act - Section 4, Financial Management Systems**

Section 4 deficiencies address weaknesses in the agency's financial management systems. Areas with internal control deficiencies, which affect full compliance with the Section 4 objectives of the *Federal Managers' Financial Integrity Act*, were cited for Financial Systems Functionality and Technology improvements and integration that are needed department wide.

## **Compliance with the Federal Information Security Management Act**

The *Federal Information Security Management Act* requires that agencies protect information and information systems from unauthorized access, use, disclosure, disruption, modification or destruction in order to provide integrity, confidentiality and availability. For purposes of this report, the Department has defined significant deficiencies as failure to meet the requirements of the *Federal Information Security Management Act* and failure to substantially comply with related policies, guidance and standards. Specifically, the criteria the Department used to identify material weaknesses is as follows:

- Merits the attention of the Secretary, the President or Congress;
- Significantly impairs the fulfillment of the Department's mission;



# Management's Discussion and Analysis

- Deprives the public of needed services;
- Violates statutory or regulatory requirements;
- Significantly weakens safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets;
- Results in a conflict of interest;
- Prevents the Department's primary accounting systems from achieving central control over agency financial transactions and resource balances;
- Prevents compliance of the primary accounting system, subsidiary system or program system with *Office of Management and Budget (OMB) Circular A-127* (Financial Management Systems), the *U.S. Standard General Ledger* and the *Core Financial Systems Requirements*; or
- Results in a significant and recurring misstatement in reports required by OMB or Congress.

The Department conducts quarterly reviews of information technology security performance measures as part of our program assessment and evaluation process. In October 2004, the Department provided its first annual *Federal Information Security Management Act* report that covered a complete 12-month period. This report was prepared pursuant to *OMB Memorandum M-04-25* and included the results of our risk assessments; identified our significant deficiencies; outlined our security policies and procedures; summarized our system security plans and oversight tools; provided an assessment of the agency-wide plan of action and milestone process; reported security incidents; explained our training programs; summarized the results of annual testing and evaluation; and explained our plan to ensure continuity of operations. This report declared a single department-level information technology security program material weakness, which is a continuation of the department-level material weakness reported in the Department's fiscal year 2003 *Performance and Accountability Report*.

Currently, the Department is still aligning existing legacy security programs and transitioning systems to a single Department of Homeland Security information technology architecture and infrastructure, a process initiated in fiscal year 2003. It is impossible to properly mitigate all security concerns in the current legacy environment. Therefore, until the Department's transition to a single infrastructure is complete, we will probably continue to declare a department-level information technology security material weakness.

Although the implementation of a single infrastructure is not scheduled to be completed until fiscal year 2007, it should be noted that since the Department's creation, it has made substantial progress toward realigning major information security functions under a comprehensive department-wide information security umbrella to increase and improve the Department's overall information security posture. In fiscal year 2004, the Department made significant progress in the *Federal Information Security Management Act* performance measures compared to fiscal year 2003. This progress is demonstrated by a comparison of *Federal Information Security Management Act* metrics for fiscal year 2003 and fiscal year 2004 as shown in the table below.

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Performance Measures	Fiscal Year	Fiscal Year
	2003	2004
Percentage of systems certified and accredited	40%	67%
Percentage of systems with security control costs integrated into the life cycle of the system	44%	70%
Percentage of systems for which security controls have been tested and evaluated in the last year	37%	76%
Percentage of systems with a contingency plan	36%	73%
Percentage of systems for which contingency plans have been tested	13%	21%
Percentage of the Department's employees who received information technology security awareness training	14%	85%
Percentage of the Department's employees with significant security responsibilities who received specialized training	66%	89%

In the past 12 months, the Department's Information Security Program has been focused on implementing an effective enterprise information security program. Also in fiscal year 2004, the Department implemented automated tools for *Federal Information Security Management Act* reporting and Certification and Accreditation Tool development and management to assist its organizational elements meet *Federal Information Security Management Act* security requirements. The Department also initiated a system inventory project to develop a consistent inventory of its general support systems and major applications.

# Management's Discussion and Analysis

*Office of Inspector General*

U.S. Department of  
Homeland Security  
Washington, DC 20528



**Homeland  
Security**

November 1, 2004

## **MAJOR MANAGEMENT CHALLENGES FACING THE DEPARTMENT OF HOMELAND SECURITY**

During its first 20 months of existence, the Department of Homeland Security (DHS) worked to accomplish the largest reorganization of the federal government in more than half a century. This task, creating the third largest Cabinet agency with the critical, core mission of protecting the country against another terrorist attack, has presented many challenges to the department's managers and employees. While DHS has made progress, it still has much to do to establish a cohesive, efficient, and effective organization.

The Office of Inspector General (OIG) identified "major management challenges" facing the department, as discussed below. These challenges are a major factor in setting DHS OIG priorities for audits, inspections, and evaluations of DHS programs and operations. As required by the Reports Consolidation Act of 2000, the OIG will update its assessment of management challenges annually.

### **CONSOLIDATING THE DEPARTMENT'S COMPONENTS**

Integrating its many separate components into a single, effective, efficient, and economical department remains one of DHS' biggest challenges. DHS has made notable progress in this area. For example, DHS established an Operational Integration Staff to assist departmental leadership with the integration of certain DHS missions, operational activities, and programs at the headquarters level and throughout the DHS regional structure. However, much remains to be done and structural and resource problems continue to inhibit progress in certain support functions.

For example, while the department is trying to create integrated and streamlined support service functions, most of the critical support personnel are distributed throughout the components and are not directly accountable to the functional Line of Business (LOB) Chiefs. On the other hand, the Chief Procurement Officer (CPO), Chief Financial Officer (CFO), Chief Information Officer (CIO), Chief Human Capital Officer (CHCO), and Chief

# Management's Discussion and Analysis

of Administrative Services (CAS) have been directed to lead the development of management and integration efforts for their respective function, and have been given the responsibility of optimizing a department-wide support structure that eliminates redundant efforts.

In August 2004, the Secretary and Deputy Secretary directed the DHS LOB Chiefs to design and implement systems that will optimize their functions across the entire department and develop Management Directives to guide the department's management of that business function. The Directives are to build on a concept of "dual accountability" where both the operational leadership and the LOB chiefs are responsible for the successful preparation of Directives that will govern the work and the implementation effort that follows their preparation. The Deputy Secretary described the concept as a "robust dotted line" relationship of agency or component functional heads to the LOB chiefs for both daily work and annual evaluation. Final Management Directives are expected to provide direction for both process and resource management. The Secretary and Deputy Secretary called for these documents to be issued in mid-September 2004 in order to institutionalize the arrangements before FY 2005. As of October 15, while the department had not released any final Management Directives, the department's Management Council and appropriate departmental councils (i.e., CIO Council, etc.) had approved each of the Management Directives related to each LOB. In addition, Council charters have been signed for each LOB that signify concurrence among the organizational elements (OEs) of the department and establishes a formal governance and advisory board structure to ensure that the objectives and intent of the Directives are executed.

OIG will be monitoring and evaluating these efforts closely.

## **CONTRACT MANAGEMENT**

DHS obligated about \$6.8 billion procuring goods and services during FY 2003. In addition to the challenge of integrating the procurement functions of its component organizations, DHS must provide contract management to the OEs that came into the agency without the accompanying procurement staff. These components include the Science and Technology (S&T) Directorate, the Information Analysis and Infrastructure Protection (IAIP) Directorate, the Office of State and Local Government Coordination and Preparedness, U.S. VISIT, and other departmental operations. DHS formed the Office of Procurement Operations (OPO) to provide procurement support for these components, but the office has insufficient staff to manage over \$2.5 billion in procurements. DHS has contracted with other federal agencies to provide the contract management support needed while it addresses the resource issues in OPO. However, providing consistent contract management throughout DHS remains a formidable challenge. The OPO has developed and negotiated with its customer organizations a staffing plan for OPO that would bring OPO's staffing level to 127 by the end of FY 2005. The cost of these positions would be reimbursed by customer organizations through the Working Capital Fund.

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DHS' efforts to provide a sufficiently detailed and accurate listing of procurement information proved difficult and were hampered by existing federal systems. While DHS has migrated all of its procurements under the umbrella of one comprehensive reporting system, the department still lacks sufficiently detailed and validated data for FY 2003 and FY 2004 to manage the procurement universe and ensure accurate and consistent reporting.

The DHS OEs also face continuing challenges in contract management, but have made some progress. For example, the Transportation Security Administration (TSA) relies extensively on contractors to accomplish its mission, but during its first year of operation, provided little contract oversight. As a result, the cost of some of those initial contracts ballooned. In 2004, however, TSA began implementing policies and procedures to provide improved procurement planning, contract structure, and contract oversight.

Several DHS OEs have large, complex, high-cost procurement programs under way that need to be closely managed. For example, CBP's Automated Commercial Environment (ACE) project will cost \$5 billion, and the Coast Guard's Deepwater Capability Replacement Project will cost \$17 billion and will take two to three decades to complete. Further, the department recently awarded a \$10 billion contract for the development of a system to support the United States Visitor and Immigrant Status Indication Technology (US-VISIT) program for tracking and controlling the entry and exit of all aliens entering and leaving the country through air, land, and sea ports of entry. According to departmental officials, this program is on track to be implemented fully within the next ten years. Also, TSA's managed information technology services contract will cost over \$1 billion. DHS OIG will be reviewing these major procurements on an ongoing basis.

## GRANTS MANAGEMENT

DHS manages a variety of grant programs, totaling approximately \$10 billion in obligations for 2003, which provide money for disaster preparedness, prevention, response, and recovery. Significant shortcomings have been identified in many of these programs in the past, including the potential for overlap and duplicate funding. In an effort to achieve better coordination, the Office for Domestic Preparedness and Office of State and Local Coordination were consolidated into the Office of State and Local Government Coordination and Preparedness (SLGCP). That office is responsible for 25 preparedness grant programs, including first responder grants.

However, much work remains to be done. In March 2004, the OIG issued *An Audit of Distributing and Spending "First Responder" Grant Funds, OIG-04-15*. The report identified problems at the state and local level that were causing grant fund distribution and spending to be slow. The problems included too many large grant programs that had to be processed in too short a time with inadequate state and local staffing; a lack of federal guidance on preparedness standards; complex and time consuming state and local planning processes; and burdensome state and local procurement and grant approval processes. The department is taking action to minimize state and local governments' problems and provide

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more assistance. For example, DHS developed a grants management technical assistance program for state and local grantees.

On March 15, 2004, Secretary Ridge formed the Task Force on State and Local Homeland Security Funding to examine why federal funds were not reaching local governments and first responders in a timely fashion. In June 2004, the Task Force issued its report, and DHS officials said that it is incorporating the recommended actions in the Task Force report to produce measurable progress in grant fund distribution and spending.

The OIG is currently conducting audits of individual states' management of first responder grants and analyzing the effectiveness of DHS' system for collecting data on state and local governments' risk, vulnerability, and needs assessments. The OIG will continue its audits of the department's disaster relief programs, and, in FY 2005, will conduct audits of state and local governments' use of first responder grant funds.

In assessing DHS grant management operations, the advice of the 9/11 Commission is pertinent. It recommended, "[F]ederal homeland security assistance should not remain a program for general revenue sharing. It should supplement state and local resources based on the risks or vulnerabilities that merit additional support."<sup>1</sup> In the OIG's recent draft report on the DHS Port Security Grant program, the OIG reported that DHS grant making for this sector of national infrastructure was not well coordinated with the IAIP Office of Infrastructure Protection, did not account for infrastructure protection priorities in the application review process, and resulted in funding of projects with low scores in the review process. Also, the DHS does not have a strong grant evaluation process in place by which to address post-award administration issues, including measuring progress in accomplishing DHS' grant objectives.

Department officials note that SLGCP, the United States Coast Guard, the Department of Transportation's Maritime Administration (MARAD), and TSA are partners in the Request for Application development as well as the evaluation panels for the Port Security Grant Program. As the lead agency for port security, the United States Coast Guard has been working with IAIP on port-wide criticality assessments. The Port Security Grant Program requires applicants to have completed a security vulnerability assessment as required in the Maritime Transportation Security Act (MTSA). The United States Coast Guard has defined the criteria for the structure of the required vulnerability/risk assessments under MTSA. Department officials said that in FY 2005, SLGCP will involve IAIP's Office of Infrastructure Protection appropriately in the Port Security Grant Program.

Department officials also said that staffing is inadequate to supporting the administration of the Port Security Grant Program's post-award phase. Staff developed a report to be submitted by the grantee at the end of the project period. This data will provide broad statistics demonstrating how the grant award funding has reduced the grantees' risk as identified by their security vulnerability assessment. Department officials said that in FY 2005, SLGCP plans to increase staff to allow for site visits and improved oversight of grant-funded projects.

<sup>1</sup> Final Report of the National Commission on Terrorist Attacks upon the United States, page 396 (2004).

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## FINANCIAL MANAGEMENT

### Integration and Reporting

In March 2004, the department issued its first *Performance and Accountability Report* (PAR), containing its first set of published financial statements. The department received a qualified opinion on its balance sheet as of September 30, 2003, and the statement of custodial activity for the seven months then ended. This was a significant accomplishment for a large and complex department that was just starting-up. This effort produced a baseline for improvement with identification of 14 reportable conditions, seven of which were considered to be material weaknesses.<sup>2</sup>

The material weaknesses consisted of control weaknesses in the following areas:

- A. Financial Management and Personnel
- B. Financial Reporting
- C. Financial Systems Functionality and Technology
- D. Property, Plant, and Equipment
- E. Operating Materials and Supplies
- F. Actuarial Liabilities
- G. Transfers of Funds, Assets, and Liabilities to DHS

The other reportable conditions consisted of control weaknesses in these areas:

- H. Drawback Claims on Duties, Taxes, and Fees
- I. Import Entry In-bond
- J. Acceptance and Adjudication of Immigration and Naturalization Applications
- K. Fund Balance with Treasury
- L. Intra-governmental Balances
- M. Strategic National Stockpile
- N. Accounts Payable and Undelivered Orders

The department had very little time to focus on correcting the above deficiencies before the start of the FY 2004 audit. Therefore, most material weaknesses and reportable conditions will carry forward into the FY 2005 audit report. The material weakness associated with transfers of funds, assets, and liabilities to DHS was specific to DHS' first reporting period and will not be carried forward. In August 2004, the Strategic National Stockpile was transferred to the Department of Health and Human Services and is no longer the

<sup>2</sup> Specifically, the American Institute of Certified Public Accountants define reportable conditions as "matters coming to the auditors' attention relating to significant deficiencies in the design or operation of internal controls that, in the auditors' judgment, could adversely affect the department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements." Material weaknesses are defined as "reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions."

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responsibility of DHS. Finally, the Secret Service resolved its material weakness regarding actuarial liabilities.

In FY 2004, the department faced reporting problems stemming from the reorganization of the former Immigration and Naturalization Service (INS) and the U.S. Customs Service into three new bureaus -- Immigration and Customs Enforcement (ICE), Customs and Border Protection (CBP), and U.S. Citizenship and Immigration Services (USCIS), referred to as the "tri-bureaus" -- and the consolidation of accounting services for many small programs from outside of DHS into ICE. However, the department and ICE did not prepare a thorough, well-designed plan to guide the transition of accounting responsibilities within ICE. ICE fell seriously behind in the performance of basic accounting functions, such as account reconciliations and analysis of abnormal balances. The pervasiveness of errors in ICE's accounts will prevent the auditors from completing their work at ICE for the FY 2004 DHS financial statement audit.

At Coast Guard, the auditors will not be able to complete audit work this year on all accounts because of difficulties encountered. These difficulties will result in additional material weaknesses that will be reported in the upcoming FY 2004 audit report.

The department also faces a structural problem in its financial management organization. The bureaus control most of DHS' accounting resources, but the DHS Chief Financial Officer (CFO) has responsibility for DHS' consolidated financial reporting, which is dependent on those resources. Although coordination mechanisms are in place, monitoring controls at the DHS CFO's level are insufficient to ensure the accuracy of consolidated financial information. The seriousness of the material weaknesses and reportable conditions at DHS demands strong DHS CFO oversight and controls.

In October 2004, the President signed the Department of Homeland Security Financial Accountability Act (Act), a law that will significantly challenge the department's managers. The Act will require the department to make an assertion as to the effectiveness of its internal control structure beginning in FY 2005. In addition, proposed changes to OMB's Circular A-123 would require substantial agency resources and efforts to comply with the Circular's internal control documentation and reporting requirements. To complete this task, the department's financial managers will need to identify and document existing processes related to financial reporting, then perform their own testing of the design and effectiveness of internal control mechanisms and procedures. This requirement, similar to that levied on publicly traded companies under the Sarbanes-Oxley Act, goes far beyond any previous management review of internal controls over financial reporting performed by DHS. DHS will have to ensure that it complies with all standards of the Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* in order to achieve a clean audit opinion on internal control over financial reporting in FY 2006.

## **Revenue Collection**

Annually, CBP collects more than \$22 billion in duties, excise taxes, fines, penalties, and other revenue. CBP has had an active program to monitor trade compliance, but in the face



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of critical homeland security responsibilities, counter-terrorism activities have begun to claim a higher share of border resources. CBP faces a challenge in protecting trade revenue and enforcing trade laws at a time when the terrorist threat demands much more from CBP's border resources.

CBP is responsible for collecting user fees from air passengers arriving in the United States. The fees are designed to offset the costs of inspection services provided by CBP, which now includes the former INS and the Animal and Plant Health Inspection Service (APHIS) inspection processes. Between FYs 1998 and 2002, the former U. S. Customs Service collected \$1.1 billion from the airlines. Now that CBP's inspection workforce has expanded to include the former INS and APHIS inspection services, it is important that CBP ensure that revenues collected are accounted for and are adequate to cover the costs of services provided. In addition, the TSA is required to impose a fee on airline passengers. This fee is designed to offset the costs of providing civil aviation security services provided by screening personnel, Federal Air Marshals, and equipment. The OIG and GAO are currently auditing the collection of airline passenger fees.

USCIS generates more than \$1 billion in revenues through collection of immigration and naturalization application fees from non-citizens seeking entry into the United States. In fulfilling its mission, USCIS processes millions of actions and requests that are documented in paper files. The systems that track these applications are not integrated, and many are *ad hoc*. Deferred revenue is a financial measure of pending applications and is material to DHS' financial statements. The challenge for USCIS is to move from paper based and non-integrated processes to an integrated case management system.

## HUMAN CAPITAL MANAGEMENT

The Homeland Security Act gave DHS special authorization to design a human capital management system that fits its unique missions. On April 1, 2003, the department announced that it would assemble a team of diverse employees from across the department and representatives from OPM and major unions to design a new human capital management system for the department's approximately 180,000 employees. This team developed a range of options for pay and classification, performance management, labor relations, discipline, and employee appeals that were presented to the Secretary and the Director of OPM. The decisions of the Secretary and the Director were published as proposed regulations and public comments were received. DHS received over 3,500 comments from employees, DHS employee unions, the general public, and members of Congress during the public comment period. DHS spent four weeks with major DHS employee labor union representatives in congressionally mandated "meet-and-confer" sessions and then extended that process for an additional two weeks. Secretary Ridge and Director James personally met with the presidents of the two largest DHS employee labor unions in early September 2004. DHS continues to carefully review and consider the issues raised in those forums. Once that review is completed, department officials say that it will move forward with a new human resource management system that will support the mission of the Department of Homeland Security while recognizing the rights of its employees. According to the department, these

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new regulations will dramatically affect not only DHS employees, but also, at least potentially, the entire civilian workforce, as the DHS system will likely be considered a model for civilian personnel programs government-wide. In June 2004, the department awarded a contract for services related to the development and implementation of a new human resource system, MAXHR.

An additional serious problem involves the length of time necessary to complete the security clearance process, even for federal employees from other agencies who hold clearances when they enter DHS. At the same time, several OIG reviews have noted flaws in the background investigations of new employees, notably the reviews of TSA's screeners and the Federal Air Marshals Service. The OIG does not advocate a reduction of diligence in the personnel security process, but notes that the delays are long and have adversely affected DHS' operations.

## INTEGRATION OF INFORMATION SYSTEMS

Creating a single infrastructure for effective communications and information exchange remains a major management challenge for DHS. To meet this challenge, the chief information officer (CIO) has efforts under way to determine the strategies and technologies needed to connect the local, metropolitan, and wide area networks of the department's legacy agencies. Specifically, DHS enhanced the ICE's telecommunications "backbone" to create the department-wide network, establishing data communications for the establishment of the department's initial capability. Subsequently, a new concept has been developed and an initiative is under way to create the department-wide network that will establish common policies and technical standards for data communications among all organizational components. Further, the CIO is working with line managers to complete a second version of enterprise architecture to guide management of information and technology in the department. The CIO released the first version of the architecture in September 2003, and is now working to make its transition strategy more detailed and easier to implement and align with several of DHS' large information technology (IT) projects. Additionally, DHS has established the "eMerge<sup>2</sup>" program,<sup>3</sup> scheduled for implementation by September 2006, to integrate the redundant and nonintegrated systems used to support administrative activities such as accounting, acquisition, budgeting, and procurement.

However, as the OIG reported in July 2004, the DHS CIO is not well positioned to meet the department's IT objectives. Despite federal laws and requirements, the CIO is not a member of the senior management team with authority to strategically manage department-wide technology assets and programs. No formal reporting relationship is in place between the DHS CIO and the CIOs of major component organizations, which hinders department-wide support for his central IT direction. Further, the CIO has limited staff resources to assist in carrying out the planning, policy formation, and other IT management activities needed to support departmental units. These deficiencies in the IT organizational structure are exemplified by the CIO's lack of oversight and control of all DHS' IT investment decision-

<sup>3</sup> Electronically Managing Enterprise Resources for Government Effectiveness and Efficiency (eMerge<sup>2</sup>).

# Management's Discussion and Analysis

making and a reliance instead on cooperation and coordination within DHS' CIO Council<sup>4</sup> to accomplish department-wide IT integration and consolidation objectives. The department would benefit from following the successful examples of other federal agencies in positioning their CIOs with the authority and influence needed to guide executive decisions on department-wide IT investments and strategies.

## SECURITY OF INFORMATION TECHNOLOGY INFRASTRUCTURE

The security of IT infrastructure is a major management challenge. As required by the Federal Information Security Management Act (FISMA), the CIO must develop and implement a department-wide information security program that ensures the effectiveness of security controls over information resources that address the risks and vulnerabilities facing DHS' IT systems.

As DHS OIG reported in September 2004, based upon its annual FISMA evaluation, DHS has made significant progress over the last year in developing, managing, and implementing its information security program at the departmental level. The Chief Information Security Officer (CISO) updated many of its IT security policies and procedures and together, these policies and procedures, if fully implemented by the components, should provide DHS with an effective information security program that complies with FISMA requirements.

Even though DHS has made several improvements in its information security program, the OEs have not yet fully aligned their respective security programs with DHS' overall policies, procedures, and practices. For example, DHS cannot effectively manage its information security program while lacking an accurate and complete system inventory. The CISO has developed a formal inventory methodology based on federal guidance including FISMA and National Institute of Standards and Technology publications. Currently, the CISO has a team visiting OEs to facilitate inventory alignment based on the methodology. Further, as reported in our FY 2003 security program evaluation, DHS' OEs are not ensuring that IT security weaknesses are included in their Plan(s) of Action and Milestones (POA&M). To address this issue the CISO has implemented POA&M assist visits with each of the OEs, to better manage the entire POA&M process, including the identification and management of all security weaknesses.

In a separate report issued by the DHS OIG in June 2004, security controls were found to be inadequate and increase the risks to DHS wireless networks. The DHS OIG reported issues with wireless policy, procedures for wireless implementation, and effective oversight by DHS' National Wireless Management Office (WMO). The DHS WMO is working closely with the CISO to ensure that wireless security policy is properly formulated and promulgated, and is sufficient to ensure DHS' wireless communications. Department officials said that it will implement and maintain a rigorous certification and accreditation

<sup>4</sup> The DHS CIO Council is comprised of the CIOs from each DHS component, ex officio representatives from General Counsel, the Chief Financial Officer's Council, the Office of the CIO, and the Executive Procurement Executive Council. The CIO Council was chartered to develop, promulgate, implement, and manage a vision and direction for information resources and telecommunications management within DHS.

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(C&A) process for all wireless systems, personal electronic devices, and tactical wireless communication systems. Specifically, the Wireless Security Working Group within DHS will coordinate with the DHS WMO and DHS CISO to ensure consistency in the development and application of risk management approaches and C&A processes for wireless services and technologies. Department officials also said that this collaboration ensures the DHS WMO is effectively managing the department's wireless security risks. Additionally, the Designated Accrediting Authority within each organizational component will be responsible for approving the implementation and use of wireless systems at a specified risk level during the C&A process.

The department is also tasked to protect the nation's critical infrastructure from a major cyber terrorist attack. The DHS OIG reported in July 2004 that DHS has begun to implement the actions and recommendations detailed in *The National Strategy to Secure Cyberspace*. While a number of major initiatives have been undertaken, DHS still faces many challenges to address long-term cyber threats and vulnerabilities to the nation's critical infrastructure.

## **INFRASTRUCTURE THREAT ASSESSMENT**

The department is tasked to protect the nation's critical infrastructure and national assets against terrorist attack. Before this assignment can be executed to its fullest, the IAIP directorate must identify and then compile the nation's critical infrastructure and national assets into a comprehensive National Assets Database (NADB). DHS has made progress on this task; as of July 2004, the NADB contained more than 33,000 national assets. However, the process the IAIP is using to assess the threats against those assets, determine how vulnerable they are to attack, ascertain their mitigation requirements, and prioritize the threat/mitigation effort is evolving. Presently, there is no blueprint for the NADB as no precedent exists for collecting such extensive information and making these difficult qualitative and quantitative assessments. Policies and procedures for maintaining the NADB are still in development. Although the IAIP provided guidance for the collection of data, the data it received was often inconsistent. The DHS OIG is evaluating the effectiveness and efficiency of the processes that the IAIP employs to develop and prioritize its inventory of the nation's key assets.

## **BORDER SECURITY**

A primary mission of the DHS is to reduce America's vulnerability to terrorism by protecting the borders of the United States and safeguarding its transportation infrastructure. Within DHS, these responsibilities fall primarily with the Border and Transportation Security (BTS) Directorate.

Two organizations within BTS are responsible for enforcing the nation's immigration and customs laws. CBP inspects visitors and cargoes at the designated U.S. ports of entry (POE) and is responsible for securing the borders between the POEs. CBP's primary mission is to prevent terrorists and terrorist weapons from entering the United States, while also

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facilitating the flow of legitimate trade and travel. ICE is the investigative arm of BTS that enforces immigration and customs laws within the United States. While CBP's responsibilities focus on activities at POEs and along the borders, ICE's responsibilities focus primarily on enforcement activities related to criminal and administrative violations of the immigration and customs laws of the United States, regardless of where the violation occurs. CBP and ICE have employees assigned outside the United States to protect the sovereignty of our borders.

Other organizations within DHS have border security related responsibilities. For example, the US-VISIT Program Office, also within BTS, is responsible for the development and fielding of the United States Visitor and Immigrant Status Indicator Technology (US-VISIT) program, DHS' entry-exit system. It also coordinates the integration of two fingerprint systems: DHS' Automated Biometric Identification System (IDENT) and the Federal Bureau of Investigation's (FBI) Integrated Automated Fingerprint Identification System (IAFIS). Also, USCIS is responsible for reviewing and approving applications for immigration benefits. While not a law enforcement agency, USCIS plays an integral part in DHS' border security program by ensuring that only eligible aliens receive immigration benefits and identifying cases of immigration benefit fraud and other immigration violations that warrant investigation or removal by ICE.

DHS faces several formidable challenges in securing the nation's borders. These include the development of an effective, automated entry-exit system (US-VISIT); disruption of alien smuggling operations; identifying, locating, detaining, and removing illegal aliens; fielding effective border surveillance technologies; integrating DHS' IDENT with the FBI's IAFIS fingerprint systems; providing timely, accurate, and complete intelligence to support border security operations; developing effective overseas operations; and, reducing the immigration benefit application backlog.

## **Tracking the Entry and Exit of Foreign Visitors**

US-VISIT will provide the capability to record entry and exit information on foreign visitors who travel through United States air, sea, and land ports, and it will apply to non-immigrants holding non-immigrant visas. DHS thinks that the US-VISIT program will take five to ten years to implement fully its long term, comprehensive vision. To support US-VISIT in meeting its challenge, the US-VISIT Program Office awarded the prime integrator contract on June 1, 2004. The initial five-year contract, with one-year options for extension of another five years, is worth up to \$10 billion. Managing this mammoth project and associated budget will require considerable management and contractor oversight by DHS. The project has considerable risk, not only in terms of technology challenges that must be overcome, but the end product of the project is still undefined.

## **Alien Smuggling**

Alien smuggling continues to be a major immigration problem in the United States. As border enforcement operations have made illegal entry into the United States more difficult, smugglers have profited. In addition to boosting their fees, smugglers have become

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increasingly dangerous and aggressive in their tactics. ICE faces significant challenges in curbing these sophisticated and dangerous smuggling operations. ICE's limited resources have always been strained in its attempts to counter the economic magnet of the U.S. employment market. ICE reports that its Arizona Border Control Initiative led to a decrease in smuggling activity, the seizure of over \$5.3 million in smuggling assets, and the confiscation of 130 firearms.

## **Identifying, Locating, Detaining, and Removing Illegal Aliens**

DHS continues to face challenges in identifying, locating, detaining, and removing aliens who have entered without inspection, violated the terms of their visas, or committed criminal acts. The current illegal alien population in the United States is estimated to be 8-12 million. ICE, the agency responsible for removing the illegal alien population, continues to wage an uphill battle to address this problem. ICE is hampered in part by shortages of special agents. It has approximately 5,500 special agents to cover the myriad of immigration and customs law enforcement responsibilities, of which locating illegal aliens is but one. ICE utilizes DHS non-immigrant registration systems, including the National Security Entry Exit Registration System (NSEERS), the Student and Exchange Visitor Information System (SEVIS), and US-VISIT to assist in the process of identifying and locating visa overstays and student status violators.

Further, ICE has the responsibility to detain certain illegal aliens until they are removed from the United States. With increasing frequency, ICE has been forced to weigh its detention decisions against budgetary constraints. Prior reports have shown the importance of detention in relation to the eventual removal of an alien. Hence, effective management of BTS detention space can substantially contribute to immigration enforcement efforts.

## **Advanced Border Surveillance Technology**

CBP is challenged to monitor illegal immigration activity along remote and rugged stretches of the U.S. border with Mexico and Canada. Even if additional Border Patrol agents were available, officers alone cannot effectively monitor some border regions. CBP has employed technology to enhance border surveillance and its ability to detect illegal immigration activity. The technology includes the American Shield Initiative (ASI) and unmanned aerial vehicles. The challenges for CBP are to identify effective technologies; deploy the technologies appropriately; and integrate effectively those technologies as "force multipliers" into its border enforcement strategy.

## **Integrated Fingerprint Systems**

DHS must move rapidly to complete the deployment of the integrated IDENT/IAFIS workstations to the border. Immigration authorities have long recognized the need for an automated fingerprint identification system to determine quickly the immigration and criminal histories of aliens apprehended at or near the border. Immigration authorities need to be able to determine quickly which aliens should be detained for prosecution based on membership in a terrorist organization, multiple illegal entries, re-entering the United States

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after a prior deportation, alien smuggling, a current arrest warrant, or an aggravated criminal record.

In FY 1989 Congress provided the initial funding to develop an automated fingerprint identification system that eventually became known as IDENT. While IDENT was developed to meet identification purposes, the FBI developed its own fingerprint system, IAFIS, to meet its own requirements. Beginning in 1998, the need to integrate the two systems was recognized. IDENT could not interface with the FBI's fingerprint system, which prevented immigration authorities from obtaining criminal histories of aliens they had in their custody. In FY 1999, Congress mandated the integration of IDENT and IAFIS. The Department of Justice (DOJ) was originally given the responsibility for integrating the systems and was funded through annual appropriations. In FY 2004, despite not receiving funding, DHS was given responsibility for continuing the deployment of the IDENT/IAFIS capability. In addition, FY 2005 appropriations language tasks DHS to take the lead on future development of any integrated IDENT/IAFIS capability. DHS will be required to submit a report on the status of this effort, including steps the department will take to integrate IAFIS into IDENT, funds needed, and a timetable for full integration.

The integration project was started in 2000 with studies to be performed by DOJ on the impact of deploying an integrated IDENT/IAFIS capability. The first published schedule called for a limited integrated capability to be developed and deployed to selected sites by late 2002. Various delays and changes in project scope pushed out DOJ's schedule. Only a small percentage of sites had the capability by the beginning of FY 2004. To date, initial integrated workstations exist at all Border Patrol locations and most of the major ports of entry. Department officials said that the integrated workstation will allow a field agent to take a single set of fingerprints and simultaneously query both IDENT and IAFIS in real time, and that deployment to the remaining POEs and all interior locations should be completed in 2005.

The DOJ OIG reported in January 2004 that all aliens apprehended by the Border Patrol still are not checked against FBI criminal fingerprint records. Additionally, the FBI and other law enforcement agencies using the FBI's fingerprint records still cannot access DHS' criminal alien fingerprint records. The transfer of immigration responsibilities to DHS has created additional issues relating to the management of the integration project between DHS and DOJ. According to the DOJ OIG, unresolved issues include: (1) project leadership and responsibilities between DHS and DOJ; (2) funding; (3) technical interoperability issues between US-VISIT and IAFIS; (4) the development of integration project schedules; and (5) fingerprint image quality concerns.

## **Intelligence Support for Border Security Operations**

Integrating the multiple data systems to compile a complete border security picture without requiring queries of multiple systems by ICE and CBP officers will be a major challenge. In order for CBP and ICE officers to identify potential threats to the security of the United States, whether it be persons or cargoes, they must be able to access all relevant information and intelligence from all sources regarding persons, vehicles, vessels, aircraft, criminal histories, travel records, etc. Officers must be able to access quickly information to develop

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a complete picture of the current border security situation so that they can make appropriate enforcement decisions. Quick access to information is also vital to CBP's objective of facilitating legitimate travel and trade. However, officers must now conduct time consuming and difficult multiple database searches because systems are not integrated. The systems that they use are antiquated and not easily operated. Data displays are not always clear and officers could miss or overlook important information. Data within the systems cannot always be manipulated to conduct in-depth analysis to discern trends and patterns of illegal activities.

Efforts are currently ongoing to consolidate the various terrorist watch list systems used by federal agencies, and thereby help improve intelligence support for border security operations. According to the Homeland Security Act of 2002, DHS is to play a major role in watch list consolidation activities. However, these consolidation activities are still conducted by the federal organizations that were primarily responsible for collecting and disseminating terrorist information prior to DHS' formation.

## **International Operations**

DHS faces international challenges in protecting our borders. Provisions in the visa issuance process and other programs to promote international travel create potential security vulnerabilities that may allow terrorists, criminals, and other undesirable travelers to enter the United States undetected.

For example, DHS must address security concerns identified in the Visa Waiver Program (VWP). The VWP enables citizens of 27 countries to travel to the United States for tourism or business for 90 days or less without obtaining a visa. These travelers are inspected at a U.S. POE, but have not undergone the more rigorous background investigations associated with visa applications.

BTS needs to strengthen and improve the management of the VWP, including issues related to lost and stolen passports (LASP). LASP information provided by VWP governments has not been thoroughly checked by the former INS or now by BTS against U.S. entry and exit information to determine whether the passports have been used to enter the United States. Collection of LASP data from VWP governments is not proactive or uniform. Further, LASP problems are complicated by the lack of international standardization in passport numbering systems that can result in a failure to identify *male fide* (in bad faith) travelers using stolen VWP passports even when the theft has been reported. The OIG recommended that US-VISIT biometric processing be extended to VWP travelers, a program change that DHS has adopted.

DHS must also address issues identified with its visa security program (VSP). The VSP stations DHS officers at U.S. embassies and consular offices overseas to review visa applications and perform other law enforcement functions. The VSP program received partial funding in FY 2004 and full funding in FY 2005. Because BTS has been compelled to use temporary duty officers who have not received training in foreign languages, they do not have these skills, and lacked adequate administrative support as well. As a result, the full



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intelligence and law enforcement value that Visa Security Officers could add to the existing inter-agency country teams has not been achieved.

CBP has started a new program, the Immigration Security Initiative (ISI), to station CBP officers in foreign airports. The ISI officers are to interdict terrorists, illegal aliens, alien smugglers, and other criminals before they board U.S.-bound flights. As with any new initiative, CBP is faced with several challenges in establishing and managing this new program. First, adequate funding must be provided. Second, the officers working in the foreign airports must have adequate technical and administrative support to perform their missions. This includes connectivity to electronic database systems, which could be problematic in a foreign facility. Third, CBP must develop a cadre of specially trained officers that it can rotate into these positions.

## **Immigration Benefit Application Backlog Reduction**

USCIS is challenged with processing immigration benefit applications and petitions in a timely manner. As of May 2004, USCIS had pending 5,696,066 applications and petitions. Of these, 233,696 were for asylum; 671,707 for naturalization; and 4,790,663 for immigration benefits. The Administration announced the aim of meeting a six-month standard from start to finish for processing applications for immigration. The President pledged \$500 million over five years, beginning with \$100 million requested for fiscal year 2002, to support USCIS in eliminating the backlog by the end of 2006.

USCIS issued a "Backlog Elimination Plan" in June 2004 that reframed how USCIS counts the backlog and proposed the following backlog elimination strategies: (1) new management tools; (2) improved processes and procedures; and (3) better use of technology. USCIS' backlog reduction plan is ambitious and is based on numerous assumptions about application receipts, increased productivity, and the success of some pilot programs currently being conducted. Many of these assumptions would be severely disrupted if global immigration patterns or U.S. immigration law encountered significant changes. For example, a proposed new guest worker program would permit many currently illegal aliens to apply for some form of immigration status. If USCIS were suddenly inundated with potentially millions of unexpected immigration benefit applications, its efforts to eliminate current backlogs would be severely hindered.

## **TRANSPORTATION SECURITY**

### **Airport Screeners**

The Aviation and Transportation Security Act (ATSA), which was enacted as a result of the events of September 11, 2001, mandated that the TSA hire and train thousands of screeners for the nation's 429 commercial airports by November 19, 2002. As a result, TSA hired 62,000 screeners. A DHS OIG undercover audit of screener performance revealed that improvements are needed in the screening process to ensure that dangerous prohibited items are not being carried into the sterile areas of heavily used airports or do not enter the checked

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baggage system. Four areas caused most of the test failures and were in need of improvement: training; equipment and technology; policy and procedures; and management and supervision. TSA is enhancing its screener training programs along with management and supervision of screener activities. The DHS OIG is evaluating TSA's revised training programs and will continue to monitor TSA's progress in improving screeners' performance.

## **Checking for Explosives**

TSA has been largely successful in its effort to implement the ATSA requirement that all checked bags be screened by explosives detection systems (EDS). However, deployment of the equipment does not ensure effective security. Several OIG reviews have reported that TSA has not resolved the problems that arise when explosive detection equipment breaks down, there are workforce shortages, or high baggage volume overloads the system. Fallback alternatives are inconsistently applied and inadequately controlled, leaving gaps in the screening process. Also remaining to be done are: (1) deploying such equipment to the remaining airports where alternative screening methods are in use today; (2) integrating explosives detection systems into baggage handling systems at the largest airports (at a cost of more than \$3 billion); and, (3) using research and development funds to develop and deploy more effective and economical equipment to address current and future threats and risks. Additional safeguards are also needed to screen and inspect cargo transported on passenger aircraft.

Recently, TSA has come under criticism from both members of Congress and the 9/11 Commission for not moving quickly enough to address the vulnerability of the nation's air traffic to suicide bombers. Specifically, TSA has not installed explosives detection technologies at the checkpoint to screen for explosives on the body. TSA is in the process of testing several of these technologies that include backscatter x-ray, vapor detection, and document scanner machines to address concerns regarding detection of explosives on individuals. TSA is currently piloting explosives trace detection document scanners at four airports to assess the viability and effectiveness of the technologies.

DHS OIG is continuing to monitor TSA's progress regarding these issues as well as reviewing TSA's process for screening air cargo.

## **Maritime Security**

The U.S. Coast Guard is the lead DHS agency for maritime homeland security, and is responsible for developing and implementing a comprehensive National Maritime Transportation Security Plan to deter and respond to transportation security incidents. The marine areas under U.S. jurisdiction cover 3.5 million square miles of ocean, 95,000 miles of coastline, and 26,000 miles of commercial waters serving 361 domestic ports. These activities account for two billion tons and \$800 billion of domestic and international freight annually. Approximately 8,000 foreign vessels, manned by 200,000 foreign sailors, make more than 50,000 ship visits to U.S. ports each year.

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The Coast Guard faces significant management challenges. The most daunting challenges include restoring the Coast Guard's readiness to perform its legacy missions; implementing the Maritime Transportation Security Act of 2002 (MTSA); maintaining and replacing the Coast Guard's deepwater fleet assets; and developing adequate infrastructure needed to support the Coast Guard's multiple missions.

## **Readiness to Perform Coast Guard Legacy Missions**

The Coast Guard faces three major barriers to improving and sustaining its readiness to perform its legacy missions. First, the lack of a comprehensive and fully defined performance management system impedes the Coast Guard's ability to gauge its performance, allocate resources effectively, and target areas for improved performance. The Coast Guard has yet to comprehensively define a performance management system that includes all the input, output, and outcomes needed to gauge results and target performance improvements, balance its missions, and ensure the capacity and readiness to respond to future crisis or major terrorist attacks. Second, the workload demands on the Coast Guard will continue to increase as it implements MTSA. This complex work requires experienced and trained personnel; however, the Coast Guard has in recent years suffered from declining experience levels among its personnel. Third, sustaining a high operating tempo due to growing homeland security demands, such as added port, waterway, and coastal security patrols, will tax the Coast Guard's infrastructure including its aging cutter and aircraft fleet.

## **Implementing MTSA**

The Coast Guard faces challenges in fully implementing MTSA and enforcing the required vessel, facility, and area security plans. MTSA regulations affect approximately 9,200 vessels, 3,200 port facilities, and 40 offshore terminals. Owners and operators of vessels, facilities, and terminals were required to develop port security plans consistent with Area Maritime Security Plans. Vessel and facility plans were reviewed and approved by the Coast Guard, and implemented by July 1, 2004. The Coast Guard, working through Captains of the Port, is working to develop and implement 43 Area Maritime Security Plans covering the Nation's 361 seaports. These plans are to be implemented in concert with the national security and homeland defense strategies and plans. The Coast Guard must ensure that these plans are effectively implemented, including its key and unique role of ensuring the MTSA regulations are enforced.

In addition, the Coast Guard must identify, target, track, board, inspect, and escort high interest vessels that may pose a substantial risk to U.S. ports due to the composition of the vessel's crew, passengers, or cargo. The Coast Guard has instituted strict reporting requirements for all vessels arriving at U.S. seaports, mandating most commercial vessels to provide a 96-hour Advance Notice of Arrival. Certain vessels operating on U.S. navigable waters must also be equipped with and operate an Automatic Identification System (AIS), which includes a position indicating transponder. The Coast Guard has also developed a sophisticated decision-making system for targeting high interest vessels, cargoes, and crews. The Coast Guard faces a major management challenge to validate and fully implement these targeting procedures.

## **Maintaining and Replacing Deepwater Assets**

In June 2002, the Coast Guard awarded a \$17 billion contract to maintain and replace its Deepwater assets. This contract called for replacing or modernizing, by 2022, all assets used in missions that primarily occur more than 50 miles offshore, including approximately 90 cutters, 200 aircraft, and assorted sensors and communications systems. According to the Coast Guard, the greatest threat to its ability to safely and effectively perform its assigned missions continues to be the operational capability of its legacy aircraft, cutter, and small boat fleet. These assets are aging and are becoming more difficult and expensive to maintain. In some instances, the Coast Guard is experiencing difficulty maintaining and upgrading existing critical deepwater legacy assets including the HH-65, HH-60, HC-130 aircraft and its coastal patrol boat fleets.

Maintaining the operational readiness of critical legacy assets is a major challenge to the Coast Guard. As an example, the rate of in-flight loss of power mishaps involving the HH65 helicopter far exceeds FAA and U.S. Navy safety standards, requiring the immediate re-engining of the entire HH65 fleet. The Coast Guard estimates that sustaining its deteriorating legacy assets will escalate to \$140 million in fiscal year 2005, further challenging the Coast Guard to rethink plans and schedules for maintaining or replacing legacy assets.

Revisiting maintenance, upgrade, and replacement decisions for legacy assets may disrupt the Deepwater contractor's plans and schedules and, therefore, could greatly increase future program costs. For example, the Coast Guard must diligently monitor the schedule and costs for maintaining, renovating, or upgrading its coastal patrol boats and medium and high endurance cutters. Revisiting these decisions may be prudent, considering the adverse impact deteriorated fleet conditions are having on Coast Guard mission performance. In 2003, the Coast Guard experienced 676 unscheduled maintenance days for its cutters—a 41% increase over 2002. This was the equivalent of losing the services of over three and a half cutters. These lost cutter days include the coastal patrol boats that are suffering from accelerated hull corrosion and breached hull casualties.

## **Infrastructure in Support of Coast Guard Missions**

The Coast Guard Acquisition, Construction, and Improvement (AC&I) budget requests during FY(s) 2003-2005 did not include adequate funding for the re-capitalization of critical infrastructure. For example, the Coast Guard requested only \$5.5 million for shore side infrastructure during FY 2004. This infrastructure must be planned, designed, funded, and constructed in time to support properly the Deepwater boats, cutters, and aircraft, as well as their crews. The lack of infrastructure funding could be a major detriment to the Coast Guard's ability to perform both its legacy and homeland security missions.

## **Other Transportation Modes**

While TSA continues to address critical aviation security needs, it is moving slowly to improve security across the other modes of transportation. About 6,000 agencies provide

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transit services through buses, subways, ferries, and light-rail services to about 14 million Americans. Recently, several congressional leaders expressed concern that the federal government has not taken strong enough action to respond to the threat to passenger and public transit. Furthermore, the 9/11 Commission recently reported that over 90% of the nation's \$5.3 billion annual investment in TSA goes to aviation, and that current efforts do not yet reflect a forward-looking strategic plan systematically analyzing assets, risks, costs, and benefits so that transportation security resources can be allocated to the greatest risks in a cost effective way.

TSA has lead responsibility for coordinating development of a transportation sector plan, which should be completed by the end of the year. TSA, however, has not finalized the memorandums of understanding with various Transportation Department agencies to determine how they will coordinate work in the future.

DHS OIG is evaluating TSA's actions to assess and address potential terrorist threats to the mass transit systems of major U.S. metropolitan areas.

## Management's Response to the Inspector General's Statement on the Top Management Challenges Facing the Department of Homeland Security

The Department recognizes the challenges identified by the Inspector General (IG) and the potential impact the challenges could have on the effectiveness and efficiency of department programs and operations if not properly addressed. In most cases, the IG's statement identifies the priority actions the Department is taking to address these challenges, many of which have been completed or are currently in progress. This is especially so in light of the fact that the fieldwork associated with the Office of the Inspector General (OIG) Report's underlying reviews was completed many months ago. The Department anticipates that the results of initiatives to address the management challenges during fiscal year 2005 and a reassessment of other challenges should enable the IG to report formidable progress next year. Some challenges, however, require legislative action or necessitate that actions be taken jointly with non-Department of Homeland Security government agencies.

Where a sustained effort is required over several years to address an OIG management challenge that impacts a core program or management priority, performance goals and strategies will be developed at either the Departmental or agency level and included in annual performance plans. For example, plans at the Departmental and agency level are in place to comprehensively address management challenges such as integrating information systems and issues on border and transportation security identified in the IG's statement. These long-term plans will be reflected in the Department's *Future Years Homeland Security Program*.

The following provides additional information to amplify or clarify the corrective actions identified in the IG report:

### **Consolidating the Department's Components**

During the first 20 months of existence, the Department has accomplished the largest reorganization of the Federal Government in more than half a century. This task, creating the third largest cabinet agency with the critical, core mission of protecting the country against another terrorist attack, has presented many challenges, which are being met by the Department's managers and employees. The Department recognizes there is yet much to be done and is taking those steps crucial to integrating and consolidating the various components of the Department.

The Department is integrating and streamlining the support service functions directly accountable to the functional Line of Business (LOB) Chiefs such as the Chief Procurement Officer (CPO), Chief Financial Officer (CFO), Chief Information Officer (CIO), Chief Human Capital Officer (CHCO) and Chief of Administrative Services (CAS). The LOB Chiefs have developed Management Directives to guide the Department's management of that business function and are now implementing systems to optimize their functions across the entire Department. The systems are based on "dual accountability" where both the operational leadership and the LOB chiefs are responsible for the successful implementation of the directives. The Management Directives provide direction for both process and resource management. The Secretary signed these documents in October to institutionalize the arrangements before fiscal year 2005.

### **Contract Management**

Overall, the Department is taking positive steps to build and improve the Department's contract management system. To help address the issues raised by the OIG, the Department formed the Office of Procurement Operations (OPO) to provide

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procurement support for components without an indigenous contracting capability. To help bridge the staffing gap, the Department contracted with other federal agencies to provide contract management support. The OPO has developed a staffing plan to bring OPO's staffing level to 127 by the end of fiscal year 2005. The cost of these positions will be funded through the Working Capital Fund.

The Department's efforts to provide a sufficiently detailed and accurate listing of procurement information proved difficult and were hampered by legacy federal systems. While it has migrated all of its procurements under the umbrella of one comprehensive reporting system, the Department still lacks sufficiently detailed and validated data for fiscal year 2003 and fiscal year 2004 to manage the procurement universe and ensure accurate and consistent reporting.

To help ensure large, complex, high-cost procurement projects are closely and properly managed, the Department has implemented a vigorous Investment Review Process (IRP) that:

- Integrates capital planning and investment control, resource allocation, budgeting, acquisition, and management of information technology and non-information technology investments to ensure scarce public resources are wisely invested and operational requirements are met.
- Ensures that spending on investments directly supports and furthers the Department's mission and provides optimal benefits and capabilities to stakeholders and customers.
- Identifies poorly performing investments that are behind schedule, over budget, or lacking in capability so corrective actions can be taken.
- Identifies duplicative efforts for consolidation and mission alignment when it makes good sense or when economies of scale can be achieved.
- Improves investment management in support of the *President's Management Agenda*.

To date, over 75 percent of the Department's major investments have been reviewed by the Investment Review Board (IRB) or the Joint Requirements Council.

## Financial Management

We acknowledge the significant financial management challenges facing the Department of Homeland Security and we are committed to work with the OIG to establish a world-class financial management program. Between our inaugural and second year of operations we have demonstrated resolve and have:

- Steadily improved the involvement of component level financial management resources.
- Hired a diverse set of financial management expertise in the areas of accounting systems, the *U.S. Standard General Ledger*, financial reporting, and internal controls.
- Partnered with private sector consultants to produce standard operating procedures that will promote consistent, timely, and accurate consolidated financial reporting in compliance with Federal accounting standards and control requirements.

We are firmly committed to accountability and embrace the *Department of Homeland Security Financial Accountability Act*. In fiscal year 2005, we will approach financial management "methodically; building our financial management infrastructure right is more important to us than rushing to an outcome." We are already proactively engaged in numerous activities to better our financial management processes. In fiscal year 2005 we will:

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- Integrate financial management functions to achieve our goal of a functionally integrated Department.
- Continue to use public and private sector partnerships to prepare standard financial management operating policies and procedures. We are utilizing best-in-class financial management policies and procedures to assist in expediting our efforts in this area. This will set the financial management internal control framework for the Department.
- Launch implementation of a strategy to transform legacy internal control structures into a Departmental internal control structure.
- Conduct an operating risk assessment of our financial reporting processes. The assessment will provide a gap analysis to identify the key risks over Departmental financial reporting and an inventory of internal control issues to enable us to close control gaps.

The Office of the Chief Financial Officer (OCFO) is pursuing an efficient and integrated approach that builds on government, industry, and project management best practices for acquiring a commercial off-the-shelf financial management package and the system integration expertise necessary for implementation. This approach called eMerge<sup>2</sup> will use a performance-based acquisition strategy based on effective planning and requirements-gathering consistent with department information technology policy and system development life-cycle guidance. OCFO is managing eMerge<sup>2</sup> using critical components of earned-value management methods for program planning, reporting, and management. OCFO has also developed appropriate planning documents, emphasizing different aspects of the effort, to ensure that the acquisition and implementation of a modern financial management system is cost-effective, efficient and meets the Department's business, technical and compliance needs.

## Integration of Information Systems

Creating a single infrastructure for effective communications and information exchange is a major management challenge for the Department. The CIO is developing the strategies and technologies needed to connect the local, metropolitan, and wide area networks of the Department's legacy agencies.

The Department's CIO is an integral member at each level of the information technology investment review process. The Department's CIO heads the CIO Council (comprised of all CIOs across the Department) and the Enterprise Architecture Board and is a key member of the IRB as part of the Department's IRP. The IRB is the executive review board that provides acquisition oversight of the Department's major investments. The IRB is the forum that provides senior management the proper visibility, oversight, and accountability for major investments whether they are information technology or non-information technology. It also serves as a forum for discussing investment issues and resolving problems requiring senior management attention.

## Maritime Security

The Coast Guard continues to improve a robust mission program performance management system and readiness to perform legacy missions in close coordination with the Department and OMB on Program Assessment Rating Tool reviews and independent program evaluations. Further refinement of the Coast Guard's comprehensive performance management system will include alignment and measurement of activities that contribute to department and Coast Guard agreed upon outcomes. This will further enable the Coast Guard to gauge results and target performance improvement, balance its missions, and ensure the capacity and readiness to respond to future crisis or major terrorist attacks. Coast Guard leadership is also proactively engaged in periodic long-term scenario planning to foresee future needs. For example, the Coast Guard is preparing a comprehensive schedule that will include the current status of its Deepwater Project asset acquisition phases (such as concept technology and design, system development and demonstration, and fabrication), interim phase milestones (such



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as preliminary and critical design reviews, installation, and testing), and the critical paths linking the delivery of individual components to particular assets.

The Coast Guard, in coordination with its industry partner, Integrated Coast Guard Systems, is analyzing repair or replace decisions for some assets. These analyses are being conducted primarily to ensure that the Coast Guard achieves operational requirements and does not suffer reduced asset capability. Additionally, an increase in cost is not necessarily a result. In some cases proposed changes will result in savings.

# Financial Information

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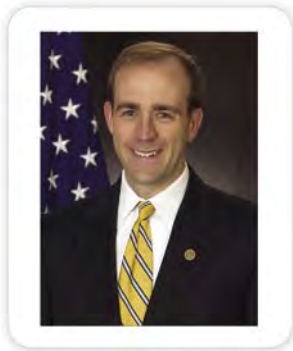


# Financial Information

Part II

## Message from the Chief Financial Officer

November 18, 2004



Our fiscal year 2004 *Performance and Accountability Report* summarizes the most important financial and program performance information for the Department of Homeland Security. It also is our principal publication and report to the President, the Congress and the American people on our accountability and control of funds entrusted to us, and efforts to improve program performance.

The Department continued to build upon the momentum of our inaugural year by establishing a vision and direction of our program performance and financial management initiatives. We have an opportunity to do things differently at the Department and over the past year we have steadily improved our processes and systems to enable our people to build a 21<sup>st</sup> century Department. Over the past year we have:

- Subjected our consolidated financial statements to an independent audit for a second year and continued to demonstrate our commitment to accountability through improving upon our financial reporting processes.
- Built the foundation for an integrated financial management infrastructure through our eMerge<sup>2</sup> program by incorporating *Federal Financial Management Improvement Act* and *Joint Financial Management Improvement Act* Program requirements into system specifications; developing an inventory of baseline financial management and mixed systems; assessing major system problems; and enlisting the strong involvement of key stakeholders and Departmental Management.
- Established the Planning, Programming, Budgeting and Execution process to develop, review and approve the Department's *Future Years Homeland Security Program* and budget. The program provides program-funding allocations for the budget year plus four years in support of Department goals and priorities. The goals of the Planning, Programming, Budgeting and Execution process include ensuring program requirements are properly identified, planned, resourced and budgeted; programs and funding are aligned with Department goals and priorities; programs have measurable and meaningful performance outcomes key to the long-term success of the Department; and execution and performance feedback are taken into account during long-term planning.
- Continued the transition from 19 to 10 financial management centers without impairing the fulfillment of the Department's mission. Throughout fiscal year 2004, the accounting business lines previously provided by the Departments of Commerce, Defense, Energy, Health and Human Services, Justice, Agriculture and the General Services Administration were consolidated and are now provided in-house by the U.S. Immigration and Customs Enforcement. This streamlining of financial management functions enables the Department to more readily access bureau financial data, conduct department-wide financial analyses and make sound financial decisions. We continue to work towards further consolidation of financial management processes and systems, where prudent.
- Developed best-in-class standard operating policies and procedures to strengthen our financial reporting practices and foster financial management excellence throughout the Department's Chief Financial Officer community.
- Conducted a business transformation, as part of our merger and acquisition efforts, by realigning over 6,000 support services employees (both government and contractor) from the legacy U.S. Customs Service and the legacy Immigration and Naturalization Service to support the 68,000 employees of the U.S. Customs and Border Protection, U.S. Immigration and Customs Enforcement and U.S. Citizenship and Immigration Services organizations.
- Demonstrated achievement on the *President's Management Agenda* with Budget & Performance Integration rising to a status of yellow at year end. Budget & Performance Integration and Financial Performance received green progress scores each quarter from the Office of Management and Budget. Component organizations receive quarterly *President's*

# Financial Information

*Management Agenda* scores. These internal scorecards promote best financial management practices and set uniform goals throughout the Department.

In fiscal year 2004, we ensured resources were allocated to enable people in the frontline programs to accomplish the mission of the Department effectively. We've supported the work of the Homeland Security Operations Center to make resources available to respond to threat level elevations. During the hurricane season, we made resources available to maximize readiness and response efforts in areas that were impacted by these dangerous storms.

Our independent auditor issued a disclaimer report on our financial statements and identified ten material weaknesses in fiscal year 2004. Based on internal management evaluations, and in conjunction with the results of independent financial statement audit, the Department, except as noted in Part I, Management's Discussion and Analysis, and Appendix B, the Independent Auditor's Report, can provide reasonable assurance that the objectives of Section 2 (Management Controls) and Section 4 (financial management systems) of the *Federal Managers' Financial Integrity Act* have been achieved. We are in the process of correcting these issues, as well as auditor-identified weaknesses in internal controls reported this year. I believe that reporting these weaknesses reflects positively on our commitment to identify and address financial management challenges that are inevitable as we carry out what is the most complex organizational restructuring to be undertaken in the last 50 years.

The Department of Homeland Security is committed to developing a world-class financial management program and we embrace the recently enacted *Department of Homeland Security Financial Accountability Act*. We acknowledge the significant financial management challenges before us. To demonstrate our commitment to accountability, next year we will:

- Develop a strategy to implement the internal control over financial reporting provisions of the *Department of Homeland Security Financial Accountability Act*. We will use a maturity model approach for an enterprise wide internal controls testing and documentation effort that will allow Department management to make management assertions concerning the enterprise wide internal controls over financial reporting and their effectiveness in fiscal year 2006.
- Perform an operating risk assessment of the financial reporting processes to identify the key risks over Departmental financial reporting and conduct an inventory of internal control issues as compared to established criteria and federal financial reporting requirements.
- Continue efforts to implement standard financial management operating policies and procedures throughout the Department.
- Continue progress on our eMerge<sup>2</sup> program from a conference room pilot through initial implementations.
- Develop policies and procedures to ensure all fiscal year 2005 program costs are directly traced, assigned, or allocated on a reasonable and consistent basis to the Department's Strategic Goals to improve our understanding of the cost associated with the Department's mission and programs.
- Continue along the path of shared services by monitoring service level agreements to ensure efficient and effective delivery of services supporting U.S. Customs and Border Protection, U.S. Immigration and Customs Enforcement and U.S. Citizenship and Immigration Services, and pursuing opportunities for consolidation in other financial management areas across the Department.

We have made great progress under challenging circumstances. Now, with a strong, growing and motivated staff and the continued support of the Department's leadership, Office of Management and Budget and Congress, we will realize even greater progress in the coming fiscal year.

Sincerely,



Andrew Maner  
Chief Financial Officer

## Introduction

The Department has prepared its financial statements to report its financial position and results of operations, pursuant to the requirements of the *Accountability of Tax Dollars Act of 2002*, the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. These statements include the following:

- **Consolidated Balance Sheet** – provides information on assets, liabilities and net position similarly to balance sheets reported in the private sector;
- **Consolidated Statement of Net Cost** – reports net cost of the Department's operations consisting of the gross cost incurred by the Department less any revenue received from our activities;
- **Consolidated Statement of Changes in Net Position** – reports the beginning net position, the transactions that affected the net position during the year and the ending net position;
- **Combined Statement of Budgetary Resources** – provides information on how budgetary resources were made available and their status during and at the end of the year;
- **Consolidated Statement of Financing** – reports the relationship between budgetary transactions and financial transactions; and
- **Statement of Custodial Activity** – reports the net custodial revenue received by the Department, along with sources and disposition of collections.

The responsibility for the integrity of the financial information included in these statements rests with the Department's Chief Financial Officer. An independent certified public accounting firm, selected by the Department's Inspector General, performed the audit of our financial statements. The auditor's report can be found in Appendix B of this report.

While the statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

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

# Financial Information

**Department of Homeland Security  
Consolidated Balance Sheets  
As of September 30, 2004 and 2003  
(In Millions)**

	<b>2004 (unaudited)</b>	<b>2003</b>
<b>ASSETS</b>		
<b>Intra-governmental Assets</b>		
Fund Balance with Treasury (Notes 2,3)	\$33,436	\$27,343
Investments (Note 4)	1,625	1,546
Advances and Prepayments (Note 5)	2,886	3,054
Other Intra-governmental Assets (Note 11)	481	415
<b>Total Intra-governmental Assets</b>	<b>38,428</b>	<b>32,358</b>
Tax, Duties, and Trade Receivables, Net (Note 6)	1,273	1,140
Operating Materials and Supplies, Inventory, Net (Notes 8,27)	496	1,162
Property, Plant and Equipment, Net (Note 10)	9,746	9,138
Other (Note 11)	863	750
<b>TOTAL ASSETS (Note 2)</b>	<b>\$50,806</b>	<b>\$44,548</b>
<b>LIABILITIES</b>		
<b>Intra-governmental Liabilities</b>		
Due to the Treasury General Fund (Note 6)	\$1,257	\$1,209
Accounts Payable	911	398
Other Intra-governmental Liabilities (Note 17)	563	349
<b>Total Intra-governmental Liabilities</b>	<b>2,731</b>	<b>1,956</b>
Accounts Payable	2,791	1,979
Claims and Claims Settlement Liabilities (Note 13)	1,417	754
Deferred Revenue and Advances from Others (Note 14)	2,020	1,969
Accrued Payroll and Benefits (Note 15)	2,692	2,275
Military Service and other Retirement Benefits (Note 16)	26,502	25,285
Other Liabilities (Note 17)	4,166	2,450
<b>TOTAL LIABILITIES (Note 12)</b>	<b>42,319</b>	<b>36,668</b>
Commitments and Contingencies (Notes 18,19)		
<b>NET POSITION</b>		
Unexpended Appropriations	25,504	23,560
Cumulative Results of Operations	(17,017)	(15,680)
<b>TOTAL NET POSITION (Note 27)</b>	<b>8,487</b>	<b>7,880</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$50,806</b>	<b>\$44,548</b>

The accompanying notes are an integral part of these statements.

# Financial Information

**Department of Homeland Security  
Consolidated Statement of Net Cost  
For the Year Ended September 30, 2004 (unaudited)  
(In Millions)**

<b>Directorates and Other Components:</b>	<b>Intra-governmental</b>	<b>With the Public</b>	<b>Total</b>
<b>Border and Transportation Security (Note 20)</b>			
Gross Cost	\$3,042	\$15,453	\$18,495
Less Earned Revenue	(549)	(2,359)	(2,908)
<b>Net Cost</b>	<b>2,493</b>	<b>13,094</b>	<b>15,587</b>
<b>Emergency Preparedness and Response</b>			
Gross Cost	690	7,220	7,910
Less Earned Revenue	(119)	(1,901)	(2,020)
Net Cost of Continuing Operations	571	5,319	5,890
Cost of Transferred Operations (Note 27)	98	-	98
<b>Net Cost</b>	<b>669</b>	<b>5,319</b>	<b>5,988</b>
<b>Information Analysis &amp; Infrastructure Protection</b>			
Gross Cost	349	148	497
Less Earned Revenue	-	-	-
<b>Net Cost</b>	<b>349</b>	<b>148</b>	<b>497</b>
<b>Science and Technology</b>			
Gross Cost	359	396	755
Less Earned Revenue	-	-	-
<b>Net Cost</b>	<b>359</b>	<b>396</b>	<b>755</b>
<b>United States Coast Guard</b>			
Gross Cost	1,186	7,131	8,317
Less Earned Revenue	(90)	(67)	(157)
<b>Net Cost</b>	<b>1,096</b>	<b>7,064</b>	<b>8,160</b>
<b>United States Secret Service</b>			
Gross Cost	389	997	1,386
Less Earned Revenue	(18)	-	(18)
<b>Net Cost</b>	<b>371</b>	<b>997</b>	<b>1,368</b>
<b>United States Citizenship and Immigration Service</b>			
Gross Cost	553	1,205	1,758
Less Earned Revenue (Note 14)	15	(1,325)	(1,310)
<b>Net Cost</b>	<b>568</b>	<b>(120)</b>	<b>448</b>
<b>Departmental Operations and Other</b>			
Gross Cost	138	192	330
Less Earned Revenue	(5)	-	(5)
<b>Net Cost</b>	<b>133</b>	<b>192</b>	<b>325</b>
<b>TOTAL NET COST (Notes 20, 21)</b>	<b>\$6,038</b>	<b>\$27,090</b>	<b>\$33,128</b>

The accompanying notes are an integral part of these statements.



# Financial Information

**Department of Homeland Security**  
**Consolidated Statement of Changes in Net Position**  
**For the Year Ended September 30, 2004 (unaudited)**  
(In Millions)

	<u>Cumulative Results of Operations</u>	<u>Unexpended Appropriations</u>
<b>BEGINNING BALANCES</b>	<b>\$(15,680)</b>	<b>\$23,560</b>
<b>Budgetary Financing Sources:</b>		
Appropriations Received (Note 22)	-	33,410
Appropriations Transferred in(out) (Note 27)	-	(398)
Recissions and Other Adjustments (Note 3)	-	(2,398)
Appropriations Used	28,670	(28,670)
Non-exchange Revenue	2,308	-
Donations and Forfeitures of Cash/Equivalents	3	-
Transfers in(out) without Reimbursement	672	-
Other	73	-
<b>Other Financing Sources:</b>		
Donations and Forfeitures of Property	8	-
Transfers in(out) Without Reimbursement (Note 27)	(685)	-
Imputed Financing from costs absorbed by others	742	-
<b>Total Financing Sources</b>	<b>31,791</b>	<b>1,944</b>
<b>Net Cost of Operations</b>	<b>(33,128)</b>	<b>-</b>
<b>ENDING BALANCES</b>	<b>\$(17,017)</b>	<b>\$25,504</b>

The accompanying notes are an integral part of these statements.

# Financial Information

**Department of Homeland Security**  
**Combined Statement of Budgetary Resources**  
**For the Year Ended September 30, 2004 (unaudited)**  
(In Millions)

**BUDGETARY RESOURCES**

Budget Authority:

Appropriations Received	38,303
Borrowing Authority	26
Net Transfers	757

Unobligated Balance

Beginning of Period (Note 22)	8,659
Net Transfers	41

Spending Authority from Offsetting Collections

Earned	
Collected	6,282
Receivable from Federal Sources	9
Change in Unfilled Customer Orders	
Advance Received	87
Without Advance From Federal Sources	258
Transfers from Trust Funds	55

Subtotal	<b>6,691</b>
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Recoveries of Prior Year Obligations	1,982
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Temporarily Not Available Pursuant to Public Law	(17)
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Permanently Not Available (Note 22)	(2,563)
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<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$53,879</b>
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**STATUS OF BUDGETARY RESOURCES**

Obligations incurred:

Direct (Note 22)	\$43,628
Reimbursable (Note 22)	2,880

Total Obligations incurred	<b>46,508</b>
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Unobligated Balance

Apportioned	5,691
Exempt from Apportionment	42

Unobligated Balance Not Available	1,638
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<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$53,879</b>
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**(Continued)**

The accompanying notes are an integral part of these statements.

# Financial Information

**Department of Homeland Security**  
**Combined Statement of Budgetary Resources, Continued**  
**For the Year Ended September 30, 2004 (unaudited)**  
**(In Millions)**

**RELATIONSHIP OF OBLIGATIONS TO OUTLAYS**

Obligated Balance, Net, Beginning of Period	\$19,689
Obligated Balance Transferred, Net	(559)
Obligated Balance, Net, End of Period	
Accounts Receivable	(437)
Unfilled Customer Orders from Federal Sources	(981)
Undelivered Orders	21,354
Accounts Payable	5,866
Total Obligated Balance, Net, End of Period	<u><b>\$25,802</b></u>
Outlays	
Disbursements	\$37,601
Collections	(6,424)
Total Outlays	<u><b>31,177</b></u>
Less: Offsetting Receipts	<u>(3,779)</u>
<b>NET OUTLAYS</b>	<u><b>\$27,398</b></u>

The accompanying notes are an integral part of these statements.

# Financial Information

**Department of Homeland Security**  
**Consolidated Statement of Financing**  
**For the Year Ended September 30, 2004 (unaudited)**  
(In Millions)

**Resources Used to Finance Activities:**

**Budgetary Resources Obligated**

Obligations Incurred	\$46,508
Less: Spending Authority from Offsetting Collections and Recoveries	(8,673)
Obligations Net of Offsetting Collections and Recoveries	37,835
Less: Offsetting Receipts	(3,779)
Net Obligations	34,056

**Other Resources**

Donations and Forfeiture of Property	8
Transfers in(out) Without Reimbursement	(685)
Imputed Financing from Costs Absorbed by Others	742
Net Other Resources Used to Finance Activities	65

**Total Resources Used to Finance Activities** **34,121**

**Resources Used to Finance Items Not Part of the Net Cost of Operations**

Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	5,029
Resources that Fund Expenses Recognized in Prior Periods	578
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations:	
Offsetting Receipts - U.S. Customs and Border Protection	(1,182)
Other	(816)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	1,575
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	(471)
<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	<b>4,713</b>

**Total Resources Used to Finance the Net Cost of Operations** **29,408**

**(Continued)**

The accompanying notes are an integral part of these statements.

# Financial Information

**Department of Homeland Security**  
**Consolidated Statement of Financing, Continued**  
**For the Year Ended September 30, 2004 (unaudited)**  
**(In Millions)**

**Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:**

**Components Requiring or Generating Resources in Future Periods:**

Increase in Annual Leave Liability	202
Increase in Environmental and Disposal Liability	62
Increase in Exchange Revenue Receivable from the Public	( 32)
Increase in Military Service and Other Retirement benefits	1,217
Other	919
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	<u>2,368</u>

**Components not Requiring or Generating Resources:**

Depreciation and Amortization (Note 10)	1,011
Revaluation of Assets or Liabilities	39
Other	302
Total components of Net Cost of Operations that will not Require or Generate Resources	<u>1,352</u>

**Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period**

**3,720**

**Net Cost of Operations**

**\$33,128**

The accompanying notes are an integral part of these statements.

# Financial Information

**Department of Homeland Security**  
**Statements of Custodial Activity**  
**For the Year Ended September 30, 2004 and the Seven Months Ended September 30, 2003**  
(In Millions)

	<u>2004 (unaudited)</u>	<u>2003</u>
<b>Sources of Custodial Revenue &amp; Collections</b>		
<b>Revenue Received</b>		
Duties	\$20,966	\$11,927
User Fees	924	454
Excise Taxes	2,271	1,264
Fines and Penalties	57	43
Interest	11	8
Miscellaneous	225	3
<b>Total Cash Collections</b>	<u>24,454</u>	<u>13,699</u>
Accrual Adjustment	(5)	(3)
<b>Total Custodial Revenue</b>	<u><b>24,449</b></u>	<u><b>13,696</b></u>
<b>Disposition of Custodial Revenue</b>		
Transferred to Non-Federal Entities	182	59
Transferred to Federal Entities	23,287	13,082
Refunds and Drawbacks	970	558
Retained by the Department	10	(3)
<b>Total Disposition of Custodial Revenue</b>	<u><b>24,449</b></u>	<u><b>13,696</b></u>
<b>Net Custodial Activity</b>	<u><b>\$0</b></u>	<u><b>\$0</b></u>

The accompanying notes are an integral part of these statements.

## Notes to the Consolidated Financial Statements

### 1. Summary of Significant Accounting Policies

#### A. Reporting Entity

The U.S. Department of Homeland Security was established by the *Homeland Security Act of 2002* (the Act), *Public Law (P.L.) 107-296*, dated March 25, 2002, as an executive department of the U.S. Government. The primary mission of the Department is to:

- Prevent terrorist attacks within the United States;
- Reduce the vulnerability of the United States to terrorism;
- Minimize the damage, and assist in the recovery, from terrorist attacks and natural disasters that occur within the United States;
- Carry out all functions of entities transferred to the Department, including acting as a focal point regarding natural and manmade crises and emergency planning;
- Ensure that the functions of the agencies and subdivisions within the Department that do not directly relate to securing the homeland are not diminished or neglected except by a specific, explicit Act of Congress;
- Ensure that the overall economic security of the United States is not diminished by efforts, activities and programs aimed at securing the homeland; and
- Monitor connections between illegal drug trafficking and terrorism, coordinate efforts to sever such connections, and otherwise contribute to efforts to interdict illegal drug trafficking.

The Department is composed of the following organizational elements, hereafter referred to as components:

#### **Directorates:**

##### **Information Analysis and Infrastructure Protection Directorate (IAIP)**

##### **Border and Transportation Security Directorate (BTS):**

- U.S. Customs and Border Protection (CBP)
- U.S. Immigration and Customs Enforcement (ICE), including Federal Protection Service (FPS) and Federal Air Marshal Service (FAM)
- Transportation Security Administration (TSA)
- Federal Law Enforcement Training Center (FLETC)
- Office of State and Local Government Coordination and Preparedness (SLGCP), including former Office of Domestic Preparedness (ODP)

##### **Emergency Preparedness and Response Directorate (EPR)**

##### **Science and Technology Directorate (S&T)**

##### **Management Directorate**

#### **Other Components:**

##### **U.S. Coast Guard (USCG)**

##### **U.S. Secret Service (USSS)**

##### **U.S. Citizenship and Immigration Services (CIS)**

##### **Office of the Inspector General (OIG)**

# Financial Information

Pursuant to the *Department's Fiscal Year 2004 Appropriations Act, P.L. 108-90*, effective October 1, 2003, the FAM program was realigned, within BTS, from TSA to ICE.

The *Fiscal Year 2004 Appropriations Act* also established the Department's Working Capital Fund, as authorized by the *Homeland Security Act of 2002*, for expenses and equipment necessary for maintenance and operations of administrative services that are determined to be performed more advantageously as central services.

On July 21, 2004, the President signed the *Project Bioshield Act of 2004, P.L. 108-276*. The act authorized the transfer of the Strategic National Stockpile (SNS) functions, personnel, assets, unexpended balances and liabilities to the Department of Health and Human Services (HHS). Pursuant to *Project Bioshield Act of 2004*, on August 13, 2004, the Department transferred the SNS from the Department's Directorate for Emergency Preparedness and Response to HHS. Although the program has been transferred operations related to the SNS activities are reflected in the Department's Consolidated Statement of Net Cost through the date of transfer.

On January 26, 2004, the Secretary, under the statutory authority for reorganization contained in the *Homeland Security Act of 2002*, notified the Congress of the Department's intent to merge the Office of Domestic Preparedness (ODP) with the Office of State and Local Government Coordination (SLGC) to form a new Office of State and Local Government Coordination and Preparedness (SLGCP). In accordance with Section 872 of the *Homeland Security Act of 2002*, this reorganization plan is considered to have become formalized 60 days after the provision of the notice. The SLGCP reports directly to the Secretary and is responsible for information flow between the Department and State and local governments, for State and local grant award functions, and for building and sustaining the terrorism preparedness of the first responder community. In addition, select grant award functions currently administered by EPR and TSA will be transferred to SLGCP, beginning in fiscal year 2005. Consequently, the Department expects to report a change of the reporting entity upon passage of the Department's fiscal year 2005 appropriation bill that will affect the presentation of net cost in the Consolidated Statement of Net Cost and related notes beginning in fiscal year 2005.

During fiscal year 2004, the Department accomplished a reduction in the number of financial management functions that maintained general ledgers and underlying controls supporting the consolidation of the Department's financial statements. Effective October 1, 2003, U.S. ICE assumed the financial management functions previously provided to the components for S&T and IAIP by the Departments of Justice, Commerce, Energy, Defense, Agriculture and the General Services Administration (GSA). In addition, CBP assumed the financial management functions previously provided for the Agricultural Quarantine Inspection Program by the Agricultural Research, United States Department of Agriculture (USDA). EPR assumed, for most of fiscal year 2004, the financial management functions previously provided for the SNS by HHS, until the SNS was transferred back to HHS as described above.

## **B. Basis of Accounting and Presentation**

The financial statements have been prepared from the accounting records of the Department and its components in conformity with accounting principles generally accepted in the United States, and the *Office of Management and Budget (OMB) Bulletin No. 01-09, Form and Content of Agency Financial Statements*. Accounting principles generally accepted for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), the official accounting standards-setting body of the Federal Government.

These financial statements are provided to meet the requirements of the *Accountability of Tax Dollars Act of 2002*. They consist of the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, the Consolidated Statement of Financing and the Statement of Custodial Activity as of and for the year ended September 30, 2004.



# Financial Information

Comparative financial information is only presented for the Consolidated Balance Sheet and the Statement of Custodial Activity and the related note disclosures. The Department obtained a waiver from OMB to present comparative fiscal year 2003 information for all other financial statements, related footnotes and supplemental information.

The Department's financial statements reflect the reporting of entity activities, which include appropriations received to conduct its operations and revenue generated from those operations. They also reflect the reporting of certain non-entity (custodial) functions it performs on behalf of the Federal Government and others (CBP has the authority to assess and collect duties, taxes and fees for the government of Puerto Rico and the Virgin Islands).

Transactions are recorded on an accrual and a budgetary basis of accounting. The Consolidated Balance Sheet, the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position are reported using the accrual basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of when cash is exchanged. The Combined Statement of Budgetary Resources is reported using the budgetary basis of accounting. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. Budgetary accounting generally differs from the accrual basis of accounting in that obligations are recognized when new orders are placed, contracts awarded and services received, that will require payments during the same or future periods. The Consolidated Statement of Financing reconciles differences between the budgetary and accrual basis of accounting. Non-entity revenue and refunds are reported on the Statement of Custodial Activity using a modified cash basis. With this method, revenue from cash collections are reported separately from receivable accruals, and cash disbursements are reported separately from payable accruals.

Intra-governmental assets and liabilities result from activity with other Federal agencies. All other assets and liabilities result from activity with parties outside the Federal Government, such as domestic and foreign persons, organizations, or governments. Intra-governmental earned revenues are collections or accruals of revenue from other Federal agencies, and intra-governmental costs are payments or accruals to other Federal agencies. Transactions and balances among the Department's entities have been eliminated from the Consolidated Balance Sheet, the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position. As provided by *OMB Bulletin No. 01-09*, the Statement of Budgetary Resources is presented on a combined basis; therefore, intra-departmental transactions and balances have not been eliminated from this statement. In accordance with *OMB Bulletin No. 01-09*, intra-departmental transactions and balances have been eliminated from all the amounts on the Consolidated Statement of Financing, except for obligations incurred and spending authority from offsetting collections and adjustments, which are presented on a combined basis.

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 a sovereign entity, that 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 sovereign entity.

## **C. Entity Revenue and Financing Sources**

The Department receives the majority of funding needed 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 revenues, non-exchange revenues and transfers-in.

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. Prices for goods and services sold to the public are based on recovery of full cost or are set at a market price. Reimbursable work between Federal

# Financial Information

appropriations is subject to the *Economy Act (31 U.S.C. 1535)* or other statutes authorizing reimbursement. Prices for goods and services sold to other Federal Government agencies are generally limited to the recovery of direct cost. The Department recognizes as imputed financing the amount of accrued pension and post-retirement benefit expense for current civilian employees paid on behalf of the Department by the Office of Personnel Management (OPM), as well as amounts paid from the Treasury Judgment Fund in settlement of claims, legal settlements, or court assessments. When costs that are identifiable to the Department and directly attributable to the Department's operations are paid for by other agencies, the Department recognizes these amounts as imputed costs.

Exchange revenues are recognized when earned, i.e., goods have been delivered or services have been rendered. Non-exchange revenues are recognized when a specifically identifiable, legally enforceable claim to resources arises, and to the extent that collection is probable and the amount is reasonably estimable. Non-exchange revenues primarily consists of user fees collected by CBP to off-set certain costs of operations. Other financing sources, such as donations and transfers of assets without reimbursements, also are recognized on the Consolidated Statement of Changes in Net Position during the period in which the donations and transfers occurred.

Fees for flood mitigation products and services, such as insurance provided through EPR's National Flood Insurance Program (NFIP) are established at rates necessary to sustain a self-supporting program. NFIP premium revenues are recognized ratably over the life of the policies. Deferred revenue relates to unearned premiums reserved to provide for the remaining period of insurance coverage.

CIS requires advance payments of the fees for adjudication of applications or petitions for immigration, nationality and citizenship benefits. Revenue associated with the application fees received is not considered earned until the application is adjudicated.

## **D. Non-Entity Assets, Revenue and Disbursements**

Non-entity assets are those held by the Department but are not available for use by the Department. Non-entity fund balance with Treasury represents funds available to pay refunds and drawback claims of duties, taxes and fees; and other non-entity amounts to be distributed to the Treasury General Fund and other Federal agencies in the future.

Non-entity revenue reported on the Department's Statement of Custodial Activity includes duties, excise taxes and various fees collected by the CBP and the CIS that are subsequently remitted to Treasury's General Fund or to other Federal agencies. CBP assesses duties, taxes and fees on goods and merchandise brought into the United States from foreign countries. At the time importers' merchandise is brought into the United States, importers are required to file entry documents. Generally, within ten working days after release of the merchandise into the United States commerce, the importer is to submit an entry document with payment of estimated duties, taxes and fees. Non-entity tax and trade accounts receivables and custodial revenue is recognized when CBP is entitled to collect duties, user fees, fines and penalties, refunds and drawback overpayments, and interest associated with import/export activity on behalf of the Federal Government that have been established as a specifically identifiable, legally enforceable claim and remain uncollected as of year-end. Generally, CBP records an equal and off-setting liability due to the Treasury General Fund for amounts recognized as non-entity tax and trade receivable and custodial revenue. CBP accrues an estimate of duties, taxes and fees related to commerce released prior to year-end where receipt of payment is anticipated subsequent to year-end.

Non-entity revenue is recognized when the cash CBP is entitled to collect on behalf of the Federal Government is received. These revenue collections primarily result from current fiscal year activities. Application fees collected by CIS for nonimmigrant petitions are recorded as deferred revenue at the time of collection.

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

# Financial Information

- **Duties:** amounts collected on imported goods and other miscellaneous taxes collected on behalf of the Federal Government.
- **Excise taxes:** amounts collected on imported distilled spirits, wines and tobacco products.
- **User fees:** amounts designed to maintain United States harbors, and to defray the cost of other miscellaneous service programs; also includes application fees collected from employers sponsoring nonimmigrant petitions.
- **Fines and penalties:** amounts collected for violations of laws and regulations.
- **Refunds:** amounts of duties, taxes and fees previously paid by an importer/exporter; also includes drawback remittance paid when imported merchandise, for which duty was previously paid, is exported from the United States.

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 damage 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, based on past experience in resolving disputed assessments. CBP 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. 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 Treasury General Fund reported on the Statement of Custodial Activity. An accrual adjustment is recorded on the Statement 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.

## E. Fund Balance with Treasury, Cash and Other Monetary Assets

Entity fund balance with Treasury amounts are primarily appropriated, revolving, trust, deposit, receipt, special and working capital fund amounts remaining as of fiscal year-end from which the Department is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law. Except for small amounts within EPR, the Department does not maintain cash in commercial bank accounts. Certain receipts are processed by commercial banks for deposit into individual accounts maintained at the U.S. Treasury. The Department's cash and other monetary assets primarily consists of undeposited collections, imprest funds, cash used in undercover operations, cash held as evidence and seized cash. Cash and other monetary assets are presented as a component of other assets in the accompanying Consolidated Balance Sheets.

## F. Investments, Net

Investments consist of U.S. Government non-marketable Treasury securities and are reported at cost or amortized cost net of premiums or discounts. The Bureau of Public Debt manages certain trust fund and revolving fund investments for the Department, including the USCG Oil Spill Liability Trust Fund and EPR's National Flood Insurance Program (NFIP) revolving fund. 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 investments to maturity.

## G. Advances and Prepayments

Intra-governmental advances consist primarily of EPR's disaster recovery and assistance grants to other Federal agencies tasked with mission assignments. Advances are expensed when drawn by the grant recipients. At year-end, the amount of grant funding unexpended by grant recipients is estimated, based on cash transactions reported by the grant administrator used by EPR. In accordance with OMB A-110, the Department provides advance funds to grant recipients to incur expenses related to

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the approved grant. Advances are made within the amount of the total grant obligation and are intended to cover immediate cash needs.

Advances and Prepayments to the public, presented as a component of other assets in the accompanying Consolidated Balance Sheets, consist primarily of EPR's disaster recovery and assistance grants to states and other grants to states. The largest category is Emergency Management Performance Grants, a consolidation of grant programs that supports state and local emergency management staffs and operations, insurance policy acquisition costs. Insurance policy acquisition costs include commissions incurred at policy issuance. Commissions are amortized over the period in which the related premiums are earned, generally one to three years.

## **H. Tax, Duties and Trade Receivables, Net**

Tax, Duties and Trade Receivables consists of import duties, user fees, fines and penalties, refunds and drawback overpayments, which have been established as a specifically identifiable, legally enforceable claim and remain uncollected as of year-end. These receivables are net of amounts deemed uncollectible. Uncollectible determinations consider the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity.

## **I. Accounts Receivable, Net**

Accounts receivable represent amounts owed to the Department by other Federal agencies and the public as the result of the provision of goods and services to them. Intra-governmental accounts receivable results from reimbursable work such as CIS investigative services; CBP passenger processing, trade compliance and enforcement activities; EPR activities to safeguard communities around chemical weapon storage sites; TSA information technology and communication services; and USCG services provided to the Department of Defense for repairing of boats or aircraft. Intra-governmental accounts receivable are considered to be fully collectible.

Public accounts receivable consist of amounts due to CBP from commercial air and sea vessel carriers for immigration user fees, 1931 Act overtime services, surety companies breached surety bonds; reimbursable services and user fees collected and interest assessed by CBP; premiums and restitution due to EPR from Write Your Own (WYO) insurance companies participating in EPR's Federal Insurance and Mitigation Administration flood insurance program and amounts due from insurance policy holders; amounts due to the USCG's Oil Spill Liability Trust Fund to recover costs incurred to respond to oil pollution incidents and to collect civil fines and penalties from parties responsible for oil spills recognized when the claim arises; and security fees assessed by TSA on the public and air carriers. Public 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 and historical collection experience. Interest due on past due receivables is fully reserved until collected.

## **J. Credit Program Receivables, Net**

EPR operates the Community Disaster Loan program to support any local government which has suffered a substantial loss of tax and other revenues as a result of a major disaster and which demonstrates a need for Federal financial assistance in order to perform its governmental functions. Under the program, the Department makes direct loans to local governments who meet statutorily set eligibility criteria.

Credit program receivables consist of such loans outstanding and are recorded in other assets in the accompanying Consolidated Balance Sheet. Loans are accounted for as receivables as funds are disbursed. For loans obligated prior to October 1, 1991, loan principal and interest receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience and an analysis of outstanding balances. Post 1991 obligated direct loans and the resulting receivables are governed by the *Federal Credit Reform Act of 1990 (FCRA)*. Under FCRA, for direct loans disbursed during a fiscal year, the corresponding receivable is adjusted for subsidy costs. Subsidy costs are an estimated long-term cost

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to the U.S. Government of 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 in the subsidy costs. Subsidy costs can arise from interest rate differentials, interest subsidies, delinquencies and defaults and other cash flows. EPR calculates the subsidy costs based on a subsidy calculator model created by OMB.

Loans receivable are recorded at the present value of the estimated cash inflows less cash outflows. 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.

## **K. Operating Materials, Supplies and Inventory, Net**

Operating materials and supplies (OM&S) are primarily consumed during normal operations to service USCG and ICE vessels and aircraft. OM&S are valued based on the weighted moving average method or on the basis of actual prices paid. OM&S are expensed when consumed or issued for use. Excess, obsolete and unserviceable OM&S are stated at net realizable value net of an allowance based on the condition of various asset categories, as well as USCG and ICE's historical experience with using or disposing of such assets.

Inventories consist primarily of USCG Supply Fund's uniform clothing, subsistence provisions, retail stores, general stores, technical material and fuel, and USCG Yard Fund's supplies. Inventories on hand at year-end are stated at cost using standard price/specific identification, last acquisition price, or weighted 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. USCG's inventory is restricted to sales within the USCG, and is not available for sale to other government agencies.

Pursuant to the *Project BioShield Act of 2004*, which was approved July 21, 2004, the Department transferred the SNS inventory and associated programs, effective August 13, 2004, from EPR to HHS. Additional information related to the transfer can be found in Note 27.

## **L. Seized and Forfeited Property**

Prohibited seized and forfeited property results primarily from CBP criminal investigations and passenger/cargo processing. Seized property is not considered an asset of 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 are determined, i.e., judicially or administratively forfeited or returned to the entity from which it was seized. Non-prohibited seized property, including monetary instruments, real property and tangible personal property of others in the actual or constructive possession of the Department will be transferred to the Treasury Forfeiture Fund and is not presented in the accompanying consolidated financial statements of the Department.

Forfeited property is property for which the title has passed to the U.S. Government. As noted above, non-prohibited forfeited property or currency becomes assets of the Treasury Forfeiture Fund. However, prohibited forfeited items, such as counterfeit goods, narcotics, or firearms, are held by CBP until disposed or destroyed. In accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 3, *Accounting for Inventory and Related Property*, analyses of changes in seized and forfeited property of prohibited items are disclosed in Note 9.

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

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## M. 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. PP&E is recorded at cost and is depreciated using the straight line method over the estimated useful lives of the assets. In cases where historical cost information was not maintained, PP&E is capitalized using an estimated cost based on the cost of similar assets at the time of acquisition or the current cost of similar assets discounted for inflation since the time of acquisition. The Department owns some of the buildings in which it operates. Other buildings are provided by the General Services Administration (GSA), which charges rent equivalent to the commercial rental rates for similar properties.

The multi-use heritage assets consist primarily of buildings and structures owned by CBP and USCG, and are included in general PP&E on the Consolidated Balance Sheet. The physical quantity information for the multi-use heritage assets is included in the Required Supplementary Stewardship Information for heritage assets.

In accordance with the *FASAB Technical Bulletin 2003-1*, dated June 13, 2003, and related the Department of Treasury's Financial Management Service's (FMS) guidance, PP&E transferred to the Department from legacy agencies during the seven months ended September 30, 2003, pursuant to the *Homeland Security Act of 2002*, were recorded at the net book value of the transferring agency.

The Department capitalizes acquisitions of PP&E when the cost equals or exceeds an established threshold and has a useful life of two years or more. Costs for construction projects are recorded as construction-in-progress until completed, and are valued at actual (direct) costs, plus applied overhead and other indirect costs. Capitalized internal use software includes the full cost, including an allocation of indirect costs incurred during the software development stage. The Department is developing capitalization thresholds for consistent use across all components. Until completion of such, the capitalization thresholds of the legacy agencies transferred to the Department are maintained. The ranges of capitalization thresholds used by the Department's Components, by primary asset category, are as follows:

<b>Asset Description</b>	<b>Capitalization Threshold</b>
Land	Regardless of cost to \$100,000
Buildings and improvement	\$25,000 to \$200,000
Equipment and capital leases	\$5,000 to \$50,000
Software	\$200,000 to \$750,000

The Department begins to recognize depreciation expense once the asset has been placed in service. Land is not depreciated. Depreciation on buildings and equipment leased by GSA is not recognized by the Department. 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 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.

## N. Liabilities

Liabilities represent the probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. Since the Department is a component of the U.S. Government, a sovereign entity, the Department's liabilities cannot be liquidated without legislation that provides resources or an appropriation. Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or 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, and there is no certainty that the appropriations will be enacted. The U.S. Government, acting in its sovereign capacity, can abrogate liabilities of the Department arising from other than contracts.

# Financial Information

## **O. Environmental Cleanup Costs and Contingent Liabilities**

The Department has responsibility to remediate its sites with environmental contamination, and is party to various administrative proceedings, legal actions and tort claims which may result in settlements or decisions adverse to the Federal Government. The Department has accrued a liability for future cleanup of environmental hazards when losses are determined to be “probable”, which is generally when the Department is legally responsible for creating the hazard or is otherwise related in such a way that the Department is legally liable to remediate the contamination, and the cost can be estimated. These liabilities are a component of other liabilities on the accompanying Consolidated Balance Sheets.

Contingent liabilities are liabilities where the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The Department recognizes contingent liabilities when loss is probable and reasonably estimable. The Department discloses contingent liabilities in the notes to the consolidated financial statements when the conditions for liability recognition are not met and when loss from future events is more than remote. Payments made from the Treasury Judgment Fund for settlement of the Department’s legal claims and judgments are recognized as an imputed financing source in the accompanying Consolidated Statement of Net Position.

The Department has accrued environmental liabilities where losses are determined to be probable and the amounts can be estimated. In accordance with Federal accounting guidance, the liability for future cleanup of environmental hazards is “probable” when the government is legally responsible for creating the hazard or is otherwise related to it in such a way that it is legally liable to clean up the contamination.

## **P. Grants Liability**

EPR, SLGCP (formerly ODP), and TSA award grants and cooperative agreements to Federal, state and local governments, universities, non-profit organizations and private sector companies for the purpose of building 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 other Department-related activities. EPR estimates a year-end grant accrual representing the amounts payable to grantees, using historical disbursement patterns over a period of 20 quarters to predict unreported grantee expenditures. The SLGCP and TSA grant liability accrual is estimated using known reported expenditures reported by grantees and the estimated daily expenditure rate for the period subsequent to the latest grantee submission in relation to the cumulative grant amount. Effective October 1, 2004, TSA grants activity will be transferred to SLGCP. Grants issued by TSA through September 30, 2004 will be maintained jointly by TSA and SLGCP. Grants liabilities are combined with accounts payable to the public in the accompanying Consolidated Balance Sheet.

## **Q. Claims and Claims Settlement Liabilities**

EPR administers the National Flood Insurance Program (NFIP) through sale or continuation-in-force of insurance in communities that enact and enforce appropriate flood plain management measures. Claims and claims settlement liability represents an estimate of NFIP losses that are unpaid at the balance sheet date and is based on the 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 continually reviewed, and adjustments, reflected in current operations, are made as deemed necessary. Although the insurance underwriting operations believes the liability for unpaid losses and loss adjustment expenses is reasonable and adequate in the circumstances, the insurance underwriting operations’ actual incurred losses and loss adjustment expenses may not conform to the assumptions inherent in the estimation of the liability. Accordingly, the ultimate settlement of losses and the related loss adjustment expenses may vary from the amount included in the financial statements.

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## **R. Debt and Borrowing Authority**

Debt is reported within other intra-governmental liabilities and results from Treasury loans and related interest payable to fund NFIP and Disaster Assistance Direct Loan Program (DADLP) operations. NFIP loan and interest payments are financed by flood premiums and map collection fees. Additional funding for NFIP may be obtained through Treasury borrowing authority of \$1.5 billion. DADLP annually requests borrowing authority to cover the principal amount of direct loans not to exceed \$25 million less the subsidy due from the program account. DADLP borrowing authority is for EPR “State Share Loans”. Borrowing authority for Community Disaster Loans is requested on an “as needed basis”. At the end of the fiscal year, borrowing authority is reduced by the amount of any unused portion.

## **S. Annual, Sick and Other Accrued Leave**

Earned annual and other vested compensatory leave is an accrued liability. The liability is reduced as leave is taken. At year-end, the balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances, and are reported within accrued payroll and benefits in the Consolidated Balance Sheet. Sick leave and other types of non-vested leave are not earned benefits. Accordingly, non-vested leave is expensed when used.

## **T. Workers' Compensation**

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

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

## **U. Military Service and Other Retirement Benefits**

### **DHS and Component Civilian Workforce Pension and Other Benefits**

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 the OPM rather than the Department.

Most employees of the Department hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which the Department contributes 8.5 percent of base pay for regular CSRS employees, and 9 percent of base pay for law enforcement agents.

The majority of employees hired after December 31, 1983 are covered by the Federal Employees Retirement System (FERS) and Social Security. For the FERS basic annuity benefit the Department contributes 10.7 percent of base pay for regular FERS employees and 22.7 percent for law enforcement agents. A primary feature of FERS is that it also offers a defined contribution plan to which the Department automatically contributes 1 percent of base pay and matches employee contributions up to an



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additional 4 percent of base pay. The Department also contributes the employer's Social Security matching share for FERS participants. Information regarding FERS can be found at the following website: <http://www.tsp.gov>.

Similar to CSRS and FERS, OPM rather than the Department 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 is required to report the full annual cost of providing these other retirement benefits (ORB) for its retired employees as well as reporting contributions made for active employees. In addition, the Department recognizes an expense and liability for other post employment benefits (OPEB), which includes 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 CSRS or FERS retirement, ORB and OPEB benefits and the amount paid by the Department is recorded as an imputed cost and off-setting imputed financing source in the accompanying Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position and Consolidated Statement of Financing.

## **USCG – Military Retirement System Liability**

The USCG Military Retirement System (MRS) is a defined benefit plan that covers both retirement pay and health care benefits for all active duty and reserve military members of the USCG. The plan is funded through annual appropriations and, as such, is a pay-as-you-go system. The unfunded accrued liability reported on the accompanying Consolidated Balance Sheet is actuarially determined by subtracting the present value of future employer/employee contributions, as well as any plan assets, from the present value of the future cost of benefits. Current period expense is computed using the aggregate entry age normal actuarial cost method.

A portion of the accrued MRS liability is for the health care of non-Medicare eligible retirees/survivors. Effective October 1, 2002, USCG transferred its liability for the health care of Medicare eligible retirees/survivors to the Department of Defense (DoD) Medicare-Eligible Retiree Health Care Fund (the Fund), which was established in order to finance the health care benefits for the Medicare-eligible beneficiaries of all DoD and non-DoD uniformed services. DoD is the administrative entity and in accordance with SFFAS No. 5, is required to recognize the liability on the Fund's financial statements. The USCG makes monthly payments to the Fund for current active duty members. Benefits for USCG members who retired prior to the establishment of the Fund are provided by payments from the Treasury to the Fund. The future cost and liability of the Fund is determined using claim factors and claims cost data developed by the DoD, adjusted for USCG retiree and actual claims experience. The USCG uses the current year actual costs to project costs for all future years.

## **USCG – Post-employment Military Travel Benefit**

USCG uniformed service members are entitled to travel and transportation allowances for travel performed or to be performed under orders, without regard to the comparative costs of the various modes of transportation. These allowances, upon separation from the service, include the temporary disability retired list placement, release from active duty, retirement and entitlement for travel from the member's last duty station to home or the place from which the member was called or ordered to active duty, whether or not the member is or will be an active member of a uniformed service at the time the travel is or will be performed.

USCG recognizes an expense and a liability for this OPEB when a future outflow or other sacrifice of resources is probable and measurable on the basis of events occurring on or before the reporting date. The OPEB liability is measured at the present value of future payments, which requires the USCG to estimate the amount and timing of future payments, and to discount the future outflow using the Treasury borrowing rate for securities of similar maturity to the period over which the payments are made.

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## **USSS – Uniformed Division and Special Agent Pension Liability**

The District of Columbia Police and Fireman's Retirement System (the DC Pension Plan) is a defined benefit plan that covers USSS Uniformed Division and Special Agents. The DC Pension Plan makes benefit payments to retirees and/or their beneficiaries. The USSS receives permanent, indefinite appropriations each year to pay the excess of benefit payments over salary deductions. The DC Pension Plan is funded through annual appropriations and, as such, is a pay-as-you-go system. The unfunded accrued liability reported on the accompanying Consolidated Balance Sheet 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. Current period expense is computed using the aggregate cost method.

## **V. Use of Estimates**

Management has made certain estimates and assumptions in the reporting of assets, liabilities, revenues, expenses, obligations incurred, spending authority from offsetting collections and note disclosures in the consolidated financial statements. Actual results could differ from these estimates. Significant estimates include: the allocation of trust fund receipts, year-end accruals of accounts and grants payable, contingent legal and environmental liabilities, accrued workers' compensation, allowance for doubtful accounts receivable, allowances for obsolete inventory and OM&S balances, allocations of indirect common costs to construction-in-progress, subsidy re-estimates, deferred revenues, NFIP claims and settlements, MRS and other pension, retirement and post-retirement benefit assumptions, and certain non-entity receivables and payables related to custodial activities. Certain accounts payable balances are estimated based on current payments that relate to prior periods or a current assessment of services/products received but not yet paid.

## **W. Taxes**

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

## **X. Reclassifications**

Certain 2003 balances have been reclassified for consistent disclosures with 2004 balances.

# Financial Information

## 2. Non-Entity Assets

Non-entity assets at September 30 consisted of the following (in millions):

	2004 (unaudited)	2003
Intra-governmental:		
Fund Balance with Treasury	\$3,342	\$1,720
Receivables Due From Treasury (note 11)	170	109
Total Intra-governmental	3,512	1,829
Public:		
Tax, Duties and Trade Receivables, Net (note 6)	1,273	1,140
Other	36	64
Total Public	1,309	1,204
Total Non-Entity Assets	4,821	3,033
Total Entity Assets	45,985	41,515
<b>Total Assets</b>	<b>\$50,806</b>	<b>\$44,548</b>

Non-entity fund balance with Treasury consists of special and deposit funds, permanent appropriations and miscellaneous receipts that are available to pay non-entity liabilities presented as a component of other liabilities on the Consolidated Balance Sheet. Non-entity fund balance with Treasury at September 30, 2004 and 2003, includes (in deposit fund) approximately \$2.9 billion (unaudited) and \$1.4 billion of duties collected by CBP on imports of Canadian softwood lumber and \$375 million (unaudited) and \$247 million (in special fund) Injured Domestic Industries (IDI) at September 30, 2004 and 2003, respectively. These assets off-set accrued liabilities at September 30, 2004 and 2003 (see note 17). Non-entity fund balance with Treasury also consists of trust-related assets primarily from cash held on behalf of obligors and fees, fines and penalties collected that are managed by CIS.

Non-entity receivables due from Treasury represent an estimate of duty, tax and/or fee refunds and drawbacks that will be reimbursed by a permanent and indefinite appropriation account and will be used to pay estimated duty refunds and drawbacks payable of \$132 million (unaudited) and \$98 million at September 30, 2004 and 2003, respectively (see note 17). Duties and taxes receivable from public represents amounts due from importers for goods and merchandise imported to the United States, and upon collection, will be available to pay the accrued intra-governmental liability due to the Treasury General Fund, which equaled \$1.3 billion (unaudited) and \$1.2 billion at September 30, 2004 and 2003, respectively.

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## 3. Fund Balance with Treasury

### A. Fund Balance with Treasury

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

	2004 (unaudited)	2003
Appropriated Funds	\$27,587	\$23,645
Trust Funds	48	74
Revolving, Liquidating and Working Capital Funds	435	237
Special Funds	2,131	1,709
Deposit Funds	3,235	1,678
<b>Total Fund Balance with Treasury</b>	<b>\$33,436</b>	<b>\$27,343</b>

Appropriated funds consist of amounts appropriated annually by Congress to fund the operations of the Department and its components. Appropriated funds include clearing funds totaling a negative \$457 million and \$316 million at September 30, 2004 and 2003, respectively, which represent reconciling differences with Treasury balances.

Trust funds are both receipt accounts and one or more expenditure accounts that are designated by law as a trust fund. Trust fund receipts are used for specific purposes, generally to offset the cost of expanding border and port enforcement activities, oil spill related claims and activities, or to hold CIS bond receipts.

Revolving funds are used for continuing cycles of business-like activity, in which the fund charges for the sale of products or services and uses the proceeds to finance its spending, usually without requirement for annual appropriations. The working capital fund is a fee-for-service fund established to support operations of Department component bureaus. Also included are the liquidating and financing funds for credit reform and the national flood insurance fund of \$321 million and \$84 million at September 30, 2004 and 2003, respectively.

Special funds are receipts and/or off-setting receipt funds earmarked for specific purposes including the disbursement of non-entity monies received in connection with antidumping and countervailing duty orders and findings to qualifying IDI of \$375 million and \$247 million at September 30, 2004 and 2003, respectively. The Department also has entity special funds for immigration user fees of \$154 million and \$89 million at September 30, 2004 and 2003, respectively; CBP user fees of \$730 million (unaudited) and \$640 million at September 30, 2004 and 2003, respectively; immigration examination fees of \$715 and \$470 million at September 30, 2004 and 2003 respectively; and inspection fees, flood map modernization subsidy, off-set and refund transfers.

Deposit funds represent amounts received as an advance that are not accompanied by an order and include non-entity collections that do not belong to the Federal Government and for which final disposition has not been determined at year end, including \$2.9 billion and \$1.4 billion of duties collected on imports of Canadian softwood lumber at September 30, 2004 and 2003, respectively (see notes 2 and 17).

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## B. Status of Fund Balance with Treasury

The status of fund balance with Treasury at September 30 consisted of the following (in millions):

	2004 (unaudited)	2003
Unobligated Balances:		
Available	\$5,718	\$6,657
Unavailable	1,638	2,888
Obligated Balance Not Yet Disbursed	25,802	19,642
Subtotal	33,158	29,187
Adjustments for:		
Receipt, Clearing and Deposit Funds	3,466	1,366
Borrowing Authority	(1,500)	(1,608)
Investments	(1,612)	(1,537)
Receivable Transfers and Imprest Fund	(76)	(65)
<b>Total Status of Fund Balance with Treasury</b>	<b>\$33,436</b>	<b>\$27,343</b>

Adjustments are made to reconcile the budgetary status to fund balance with Treasury for the following reasons:

- Receipt, clearing and deposit funds represent amounts on deposit with Treasury that have no budget status at September 30, 2004 and 2003. Included in adjustments for deposit funds are restricted balances of \$2.9 billion and \$1.4 billion at September 30, 2004 and 2003, respectively, of non-entity funds, and receipts that are not available for obligation.
- Borrowing authority is in budgetary status for use by EPR for disaster relief purposes.
- 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 increases the budget authority at the time the transfer is realized and obligations may be incurred before the actual transfer of funds.
- Imprest funds the money has been moved from fund balance with Treasury to imprest funds with no change in the budgetary status.

Portions of the unobligated balances available, unavailable and obligations balance not yet disbursed contains CBP's user fees account balance of \$730 and \$640 million (at September 30, 2004 and 2003), which is restricted by law in its use to offset costs incurred by CBP until authority is granted through appropriations acts.

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

The obligated not yet disbursed balance 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. Part of this balance contains obligations from the disaster relief fund of \$6.4 billion (unaudited) and \$8.1 billion at September 30, 2004 and 2003, respectively.

The Department returned to Treasury \$214 million (unaudited) and \$65 million (unaudited) for indefinite no-year authority; and \$2.3 billion (unaudited) and \$1.5 billion in authority unavailable for obligations pursuant to public law respectively (e.g. rescissions), during the year ended September 30, 2004 and the seven months ended September 30, 2003, respectively; and \$26 million (unaudited) in borrowing authority was returned during the year ended September 30, 2004.

# Financial Information

## 4. Investments

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

Type of Investment	2004 (unaudited)	2003
<i>U.S. Treasury Securities:</i>		
USCG – Non-Marketable, Par Value	\$839	\$965
EPR – Non-Marketable, Market-Based	786	581
<b>Total Intra-governmental Investments</b>	<b>\$1,625</b>	<b>\$1,546</b>

Non-marketable, market-based investments include discounts of \$13 million (unaudited) and \$9 million at September 30, 2004 and 2003 respectively; in addition, market value of investments approximates cost.

Unexpended funds in the USCG oil spill liability trust fund (oil spill fund) and the gift fund are invested by the U.S. Treasury – Bureau of Public Debt in U.S. government securities. Interest and principal on invested balances in the USCG's oil spill fund are considered investment authority and are available for use by the USCG to offset the cost of oil spill cleanup, payment of environmental claims against the fund and for specific funding of cleanup related operations. EPR maintains investments for the gifts and bequests fund and the NFIP. EPR investments are restricted to Treasury bonds, bills, notes and overnight securities. The current EPR investments portfolio consists principally of overnight securities, which have neither market value variances nor unamortized premium or discount.

## 5. Advances and Prepayments – Intra-governmental

Intra-governmental advances and prepayments at September 30 consisted of the following (in millions):

	2004 (unaudited)	2003
Disaster Relief Fund	\$2,718	\$2,816
Other	168	238
<b>Total Intra-governmental Advances and Prepayments</b>	<b>\$2,886</b>	<b>\$3,054</b>

Disaster relief fund (DRF) advances consists of EPR's disaster assistance grants to other Federal agencies tasked with mission assignments that support state and local emergency management staffs and operations.

Advances and prepayments made to the public are presented as a component of other assets on the accompanying Consolidated Balance Sheets (see note 11).

# Financial Information

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

Tax, duties and trade receivables at September 30 consisted of the following (in millions):

As of September 30, 2004 (unaudited):

Receivables Category	Gross Receivables	Allowance	Total Net Receivables
Duties	\$1,127	(\$95)	\$1,032
Excise Taxes	73	(2)	71
User Fees	80	(1)	79
Fines/Penalties	798	(745)	53
Refunds and Drawback	180	(142)	38
<b>Total Tax, Duties and Trade Receivables, Net</b>	<b>\$2,258</b>	<b>(\$985)</b>	<b>\$1,273</b>

As of September 30, 2003:

Receivables Category	Gross Receivables	Allowance	Total Net Receivables
Duties	\$1,020	(\$102)	\$918
Excise Taxes	73	(1)	72
User Fees	71	(1)	70
Fines/Penalties	694	(621)	73
Refunds and Drawback	36	(29)	7
<b>Total Tax, Duties and Trade Receivables, Net</b>	<b>\$1,894</b>	<b>(\$754)</b>	<b>\$1,140</b>

When a violation of import/export law is discovered, a fine or penalty is established, typically for the full value of the merchandise. After receiving the notice of assessment, the importer or surety has a period of time 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, CBP records an allowance on fines and penalties of approximately 94 percent (90 percent at September 30, 2003) of the total assessment based on historical experience of fines and penalties mitigation and collection. Duties and taxes receivable are non-entity assets for which there is an offsetting liability due to the Treasury General Fund.

# Financial Information

## 7. Credit Program Receivables, Net

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

	2004 (unaudited)	2003
	Loans Receivable, Net	Loans Receivable, Net
<b>Community Disaster Loans</b>	<b>\$6.8</b>	<b>\$14.5</b>

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 Prior to Fiscal Year 1992 (Present Value Method, in millions):

Direct loans obligated prior to fiscal year 1992 have been fully collected during fiscal year 2004, and therefore no balances remained as of September 30, 2004 (unaudited).

	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans
At September 30, 2003:				
<b>Community Disaster Loans</b>	<b>\$1.167</b>	<b>\$0.004</b>	<b>(\$0.017)</b>	<b>\$0.154</b>

### C. Direct Loans Obligated After FY 1991 (in millions):

	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
At September 30, 2004 (unaudited):				
<b>Community Disaster Loans</b>	<b>\$129.4</b>	<b>\$62.5</b>	<b>(\$185.1)</b>	<b>\$6.8</b>

	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
At September 30, 2003:				
<b>Community Disaster Loans</b>	<b>\$130.9</b>	<b>\$54.5</b>	<b>(\$171.0)</b>	<b>\$14.4</b>

### D. Total Amount of Direct Loans Disbursed, Post-1991: None.

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

Subsidy Expense for New Direct Loans Disbursed: None

Modifications and Re-estimates (Prior reporting year): \$4.5

**Total Direct Loan Subsidy Expense: None**



# Financial Information

## F. Direct Loan Subsidy Rates

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

	2004 (unaudited)		2003	
	Community Disaster Loans	State Share Loans	Community Disaster Loans	State Share Loans
Interest Subsidy Cost	2.48 %	(2.40) %	(0.84) %	(4.48) %
Default Costs	- %	- %	- %	- %
Other	90.78 %	0.38 %	93.01 %	0.38 %

## G. Schedule for Reconciling Subsidy Cost Allowance Balances (in millions):

	2004 (unaudited)	2003
Beginning Balance of the Subsidy cost allowance	\$171	\$163
Adjustments:		
(a) Loans written off	(1.7)	-
(b) Subsidy allowance amortization	11.3	8
Ending balance of the subsidy cost allowance before reestimates	180.6	171
Add subsidy reestimate by component		
(a) Technical/default reestimate	4.5	-
<b>Ending balance of the subsidy cost allowance</b>	<b>\$185.1</b>	<b>\$171</b>

## H. 2004 Administrative Expenses (unaudited) (in millions):

Community Disaster and State Share Loans	<u><u>\$ .5</u></u>
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# Financial Information

## 8. Operating Materials, Supplies, Inventory and Stockpile, Net (unaudited)

Operating materials and supplies (OM&S), inventory and stockpile, net at September 30, consisted of the following (in millions):

	2004 (unaudited)	2003
OM&S		
Items Held for Use	\$360	\$417
Items Held for Future Use	84	80
Excess, Obsolete and Unserviceable Items	7	10
Less: Allowance for Losses	(7)	(10)
Total OM&S, Net	<u>444</u>	<u>497</u>
Inventory		
Inventory Purchased for Resale	53	58
Less: Allowance for Losses	(1)	(1)
Total Inventory, Net	<u>52</u>	<u>57</u>
Strategic National Stockpile (note 27)	-	608
Total OM&S, Inventory and Stockpile, Net	<u>496</u>	<u>1,162</u>

The Strategic National Stockpile was transferred to the Department of Health & Human Services (HHS) on August 13, 2004, as further explained in note 27.

# Financial Information

## 9. Prohibited Seized Property (unaudited)

Prohibited seized property item counts, as of September 30, and activity for the fiscal year ended September 30, 2004 and the seven months ended September 30, 2003, are as follows:

<b>Seizure Activity</b>						
Seized Property:	Fiscal Year Ended September 30, 2004					Seized Property:
Category	Balance October 1, 2003	New Seizures	Remissions	New Forfeitures	Adjustments	September 30 Weight/Items
Illegal Drugs:						
Cannabis (marijuana)	331	560,809	0	(561,551)	2,587	2,176
Cocaine	153	36,632	0	(36,630)	(11)	144
Heroin	22	1,591	0	(1,597)	2	18
Firearms and Explosives	7,757	3,830	(3,145)	(634)	(20)	7,788
Counterfeit Currency (US/ Foreign)	2,853,395	1,346,492	(1,112,180)	0	(199,964)	2,887,743
Pornography	178	353	(5)	(367)	(26)	133
<b>Forfeiture Activity</b>						
Forfeited Property:	Fiscal Year Ended September 30, 2004					Forfeited Property:
Category	Balance October 1, 2003	New Forfeitures	Transfers	Destroyed	Adjustments	September 30 Weight/Items
Illegal Drugs:						
Cannabis (marijuana)	113,531	561,551	(6,114)	(521,349)	(48,962)	98,657
Cocaine	16,970	36,630	(298)	(34,971)	(983)	17,348
Heroin	2,977	1,597	(8)	(13,980)	11,959	2,545
Firearms and Explosives	1,340	634	(1,699)	(39)	61	297
Pornography	80	367	0	(414)	4	37

# Financial Information

## Prohibited Seized Property, Continued (unaudited)

Seizure Activity						
Seized Property:	Seven Months Ended September 30, 2003					Seized Property:
Category	Balance March 1, 2003	New Seizures	Remissions	New Forfeitures	Adjustments	September 30 Weight/Items
Illegal Drugs:						
Cannabis (marijuana)	1,191	321,745	0	(322,573)	(32)	331
Cocaine	164	19,298	0	(19,280)	(29)	153
Heroin	18	382	0	(381)	3	22
Firearms and Explosives	6,992	2,554	(396)	(1,390)	(3)	7,757
Counterfeit Currency (US/ Foreign)	2,892,538	224,215	(165,877)	0	(97,481)	2,853,395
Pornography	235	153	(3)	(187)	(20)	178
Forfeiture Activity						
Forfeited Property:	Seven Months Ended September 30, 2003					Forfeited Property:
Category	Balance March 1, 2003	New Forfeitures	Transfers	Destroyed	Adjustments	September 30 Weight/Items
Illegal Drugs:						
Cannabis (marijuana)	160,105	322,573	0	(359,768)	(9,379)	113,531
Cocaine	14,309	19,280	(23)	(16,221)	(375)	16,970
Heroin	4,033	381	(31)	(1,373)	(33)	2,977
Firearms and Explosives	292	1,390	(2)	(5)	(335)	1,340
Pornography	89	187	(1)	(202)	7	80

This schedule is presented for material prohibited (non-valued) seized and forfeited property only. These items are retained and ultimately destroyed by CBP and USSS and are not transferred to the Departments of Treasury or Justice Asset Forfeiture Funds or other Federal agencies. Adjustments include reclassification of property categories and minor adjustments to the balances transferred-in on March 1, 2003. The ending balance for firearms includes only those seized items that can actually be used as firearms. Illegal drugs are presented in kilograms and a significant portion of the weight includes packaging, which often cannot be reasonably separated from the weight of the drugs since the packaging must be maintained for evidentiary purposes. Firearms, explosives and pornography are presented in number of items; and counterfeit currency is presented in number of bills.

USCG also seizes and takes temporary possession of small boats, equipment, contraband and other illegal drugs. USCG usually disposes of these properties within three days by transfer to CBP (who transfers non-prohibited seized property to the Treasury Forfeiture Fund), the Drug Enforcement Administration, or foreign governments, or by destroying it. Because USCG never takes ownership of the property and keeps it for a short duration, seized property in USCG possession at year end is considered insignificant and therefore is not itemized and is not reported in the consolidated financial statements of the Department.

# Financial Information

## 10. Property, Plant and Equipment, Net

Property, plant and equipment (PP&E), at September 30 consisted of the following (in millions):

As of September 30, 2004 (unaudited):	Service Life	Gross Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	\$54	\$ -	\$54
Improvements to Land	3-50 yrs	23	10	13
Construction in Progress	N/A	1,570	-	1,570
Buildings, Other Structures and Facilities	2-50 yrs	3,556	1,697	1,859
Equipment:				
ADP Equipment	3-5 yrs	280	115	165
Aircraft	10-20 yrs	2,885	1,919	966
Vessels	5-10 yrs	4,045	1,843	2,202
Vehicles	3-6 yrs	484	311	173
Other Equipment	2-20 yrs	3,418	1,500	1,918
Assets Under Capital Lease	2-20 yrs	81	21	60
Leasehold Improvements	3-50 yrs	264	62	202
Internal Use Software	3-10 yrs	694	162	532
Internal Use Software- in Development	N/A	32	-	32
<b>Total Property, Plant and Equipment</b>		<b>\$17,386</b>	<b>\$7,640</b>	<b>\$9,746</b>

As of September 30, 2003:	Service Life	Acquisition Cost (with Transfers at NBV)	Accumulated Depreciation/ Amortization (unaudited)	Total Net Book Value	Unaudited Net Book Value
Land and Land Rights	N/A	\$54	\$ -	\$54	\$40
Improvements to Land	3-50 yrs	7	-	7	-
Construction in Progress	N/A	1,377	-	1,377	665
Buildings, Other Structures and Facilities	2-50 yrs	1,894	31	1,863	1,084
Equipment:					
ADP Equipment	3-5 yrs	34	6	28	-
Aircraft	10-20 yrs	1,152	102	1,050	617
Vessels	5-10 yrs	2,264	77	2,187	134
Vehicles	3-6 yrs	368	168	200	1
Other Equipment	2-20 yrs	1,803	31	1,772	299
Leasehold Improvements	3-50 yrs	160	7	153	-
Internal Use Software	3-10 yrs	236	34	202	38
Internal Use Software - in Development	N/A	245	-	245	-
<b>Total Property, Plant and Equipment</b>		<b>\$9,594</b>	<b>\$456</b>	<b>\$9,138</b>	<b>\$2,878</b>

# Financial Information

## Change in Presentation of Book Value

In accordance with *FASAB Technical Bulletin 2003-1 (TB 2003-1), Certain Questions and Answers Related to the Homeland Security Act of 2002*, for the seven months ended September 30, 2003, the Department presented legacy assets within the principle financial statements, as assets that were transferred at book value net of the accumulated depreciation book value.

Beginning in fiscal year 2004, the assets transferred into the Department during 2003 are presented at gross acquisition cost, less accumulated depreciation since acquisition, resulting in increases in these amounts when compared with the 2003 presentation; however, there is no effect of this change on the total net book value of the transferred assets. Although the presentation in the financial statement notes has changed from 2003 (presented assets equal to net book value) to 2004 (present assets and accumulated depreciation at gross book value), the underlying accounting and presentation for PP&E remains consistent with TB 2003-1 and SFFAS No. 6, *Accounting for Property, Plant and Equipment*.

The formation of the Department of Homeland Security, pursuant to the *Homeland Security Act of 2002*, constituted a government re-organization as opposed to a transfer of assets. Therefore, all Department assets, regardless of origin are presented at book value.

## Cost Basis Conversion (unaudited):

As of September 30, 2004:	As of 9/30/03 (with March 1 transfers at NBV)	Accumulated Depreciation/ Amortization at 3/1/03	Conversion to Acquisition Cost Basis at 9/30/03	FY 2004 Net Additions	Other Adjustments/ Reclassifications	Gross Cost Basis at 9/30/04
Land and Land Rights	\$54	\$ -	\$54	\$ -	\$ -	\$54
Improvements to Land	7	14	21	2	-	23
Construction in Progress	1,377	-	1,377	193	-	1,570
Buildings, Other Structures and Facilities	1,894	1,609	3,503	124	(71)	3,556
Equipment:						
ADP Equipment	34	-	34	246	-	280
Aircraft	1,152	1,756	2,908	(23)	-	2,885
Vessels	2,264	1,656	3,920	125	-	4,045
Vehicles	368	21	389	95	-	484
Other Equipment	1,803	1,069	2,872	546	-	3,418
Assets Under Capital Lease	-	4	4	6	71	81
Leasehold Improvements	160	15	175	89	-	264
Internal Use Software	236	29	265	429	-	694
Internal Use Software- in Development	245	-	245	(213)	-	32
<b>Total Property, Plant and Equipment</b>	<b>\$9,594</b>	<b>\$6,173</b>	<b>\$15,767</b>	<b>\$1,619</b>	<b>\$0</b>	<b>\$17,386</b>

# Financial Information

## Accumulated Depreciation Conversion (unaudited):

As of September 30, 2004:	As of 9/30/03 (with March 1 transfers at NBV)	Accumulated Depreciation/ Amortization at 3/1/03	Conversion to Acquisition Cost Basis at 9/30/03	FY 2004 Depreciation Expense and Disposition	Other Adjustments/ Reclassifications	Gross Accumulated Depreciation at 9/30/04
Land and Land Rights	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Improvements to Land	-	14	14	(4)	-	10
Construction in Progress	-	-	-	-	-	-
Buildings, Other Structures and Facilities	31	1,609	1,640	63	(6)	1,697
Equipment:						
ADP Equipment	6	-	6	109	-	115
Aircraft	102	1,756	1,858	61	-	1,919
Vessels	77	1,656	1,733	110	-	1,843
Vehicles	168	21	189	122	-	311
Other Equipment	31	1,069	1,100	400	-	1,500
Assets Under Capital Lease	-	4	4	11	6	21
Leasehold Improvements	7	15	22	40	-	62
Internal Use Software	34	29	63	99	-	162
Internal Use Software- in Development	-	-	-	-	-	-
<b>Total Property, Plant and Equipment</b>	<b>\$456</b>	<b>\$6,173</b>	<b>\$6,629</b>	<b>\$1,011</b>	<b>\$0</b>	<b>\$7,640</b>

## 11. Other Assets

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

	2004 (unaudited)	2003
Intra-governmental:		
Accounts Receivable	\$311	\$306
Receivables Due From Treasury (note 2)	170	109
<b>Total Intra-governmental</b>	<b>481</b>	<b>415</b>
Public:		
Accounts Receivable and Related Interest	773	591
Allowance for Doubtful Accounts	(375)	(291)
Advances and Prepayments	356	365
Cash and Other Monetary Assets	87	59
Credit Program Receivables, Net (note 7)	7	15
Other	15	11
<b>Total Public</b>	<b>863</b>	<b>750</b>
<b>Total Other Assets</b>	<b>\$1,344</b>	<b>\$1,165</b>

Intra-governmental accounts receivable results from reimbursable work performed by USCG, ICE, EPR, TSA and CBP. Accounts receivable with the public consists of amounts due to CBP, TSA, EPR, USCG and ICE for reimbursable services and user fees. Advances and prepayments with the public consist primarily of National Flood Insurance payments made by EPR.

# Financial Information

## 12. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources at September 30 consisted of the following (in millions):

	2004 (unaudited)	2003
Intra-governmental:		
Accrued FECA Liability (note 15)	\$240	\$178
Other	10	12
Total Intra-governmental	<u>250</u>	<u>190</u>
Public:		
Military Service and Other Retirement Benefits (note 16)	26,502	25,285
Accrued Payroll and Benefits:		
Accrued Leave (note 15)	663	461
Other Employment Related Liability (note 15)	105	184
Actuarial FECA Liability (note 15)	1,398	1,125
Claims and Claims Settlement Liabilities (note 13)	9	44
Other:		
Environmental Cleanup Costs (note 19)	144	98
Contingent Liabilities (note 19)	54	58
Capital Lease Liability (notes 17 and 18)	148	167
Other	-	3
Total Public	<u>29,023</u>	<u>27,425</u>
Total Liabilities Not Covered by Budgetary Resources	\$29,273	\$27,615
Liabilities Covered by Budgetary Resources or Non-Entity Assets	<u>13,046</u>	<u>9,053</u>
<b>Total Liabilities</b>	<b><u>\$42,319</u></b>	<b><u>\$36,668</u></b>

The Department anticipates that the liabilities listed above will be funded from future budgetary resources when required. Budgetary resources are generally provided for unfunded leave when it is used. The USCG's environmental liability for 2004 increased to \$159 million (\$144 million unfunded) from \$98 million unfunded. This increase is due to a revised estimating methodology that considers cost indexing and unknown contingency factor usage on various shore sites; new liabilities associated with lighthouse and small arms firing ranges sites; and a revised methodology for estimating the environmental liability for vessel cleanup and decommissioning to provide more consistency by vessel type.

## 13. Claims and Claims Settlement Liabilities

	2004 (unaudited)	2003
National Flood Insurance Program	\$1,357	\$672
Cerro Grande Fire Assistance Act	60	82
<b>Total Claims and Claims Settlement Liabilities</b>	<b><u>\$1,417</u></b>	<b><u>\$754</u></b>



# Financial Information

## A. National Flood Insurance Program (NFIP)

The NFIP liability for unpaid losses and related loss adjustment expenses and amounts paid for the year ended September 30, 2004 and the seven months ended September 30, 2003 (unaudited) consisted of the following (in millions):

	2004 (unaudited)	2003
Transferred-in NFIP liability (March 1, 2003)	\$ -	\$59
Beginning Balance – September 30, 2003	672	-
Incurred losses and increase estimated losses	1,505	803
Less: Amounts paid during current period	(820)	(190)
<b>Total NFIP Liability at September 30</b>	<b>\$1,357</b>	<b>\$672</b>

The increase in incurred losses was primarily due to the four hurricanes (Charley, Frances, Ivan and Jeanne) that damaged the State of Florida and other U.S. coastal areas during the months of August and September 2004.

## B. Cerro Grande Fire Assistance Act

The U.S. Department of Interior, National Park Service initiated a prescribed burn that resulted in the loss of Federal, state, local, Indian tribal and private property. In July 2000, Congress passed the *Cerro Grande Fire Assistance Act* (CGFAA) to compensate as fully as possible those parties who suffered damages from the Cerro Grande Fire.

At September 30, 2004 and 2003, the liability for unpaid claims and claim adjustment expenses represents an estimate of the known probable and estimable losses that are unpaid as of September 30, 2004 and 2003, based on the Final Rules dated March 21, 2001, entitled, the Disaster Assistance: Cerro Grande Fire Assistance, Final Rule, published in the *Federal Register Part II at 44 Code of Federal Regulations Chapter I, Part 295*. This estimated claims liability for September 30, 2004 and 2003, includes \$9 million (unaudited) and \$44 million, respectively, which is unfunded.

# Financial Information

## 14. Deferred Revenue and Advances from Others

Deferred revenue at September 30, and CIS application fee activity for the year end September 30, 2004 and seven months ended September 30, 2003 (unaudited), consisted of the following (in millions):

	2004 (unaudited)	2003
CIS Application Fees:		
March 1, 2003 transferred-in balance	\$ -	\$829
Beginning Balance – September 30, 2003	949	-
Collection deposited	1,354	580
Less: earned revenue (completed applications)	(1,429)	(439)
Adjustments for undeposited collections and other	15	(21)
Total CIS Application Fees	<u>889</u>	<u>949</u>
EPR Unexpired NFIP premium	1,095	1,008
Advances from Others	14	12
Deferred Credits	22	-
<b>Total Deferred Revenue</b>	<b><u><u>\$2,020</u></u></b>	<b><u><u>\$1,969</u></u></b>

CIS requires advance payments of the fees for applications or petitions for immigration, nationality and citizenship benefits. EPR's deferred revenue relates to unearned NFIP premiums that are reserved to provide for the unexpired period of insurance coverage.

# Financial Information

## 15. Accrued Payroll and Benefits

	2004 (unaudited)	2003
Accrued Funded Payroll and Benefits	\$495	\$499
Accrued Unfunded Leave	663	461
Unfunded Employment Related Liabilities	105	184
Actuarial FECA Liability	1,398	1,125
Other	31	6
<b>Total Accrued Payroll and Benefits</b>	<b>\$2,692</b>	<b>\$2,275</b>

### 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 liability representing money owed for current claims at September 30, 2004 and 2003 includes \$240 million (unaudited) and \$178 million, respectively, and is included in other liabilities (see note 17). Future workers' compensation estimates, generated from an application of actuarial procedures developed by the DOL, for the future cost of approved compensation cases at September 30, 2004 and 2003, were \$1.4 billion and \$1.1 billion, respectively. Workers' compensation expense was \$130 million (unaudited) for the fiscal year ended September 30, 2004.

## 16. Military Service and Other Retirement Benefits

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

	2004 (unaudited)	2003
USCG Military Retirement and Healthcare Benefits	\$23,037	\$21,745
USCG Post-Employment Military Travel Benefits (unaudited)	83	201
USSS DC Pension Plan Benefits (unaudited)	3,382	3,339
<b>Total Military Service and Other Retirement Benefits Liability</b>	<b>\$26,502</b>	<b>\$25,285</b>

# Financial Information

## A. Military Retirement System Expense (unaudited)

The components of the Military Retirement System (MRS) expense for the year ended September 30, 2004, consisted of the following (in millions):

Defined Benefit Plan:	
Normal cost	\$419
Interest on the liability	1,162
Actuarial losses/(gains)	(101)
Actuarial Assumption Change	39
Plan Amendments	432
Total Defined Benefit Plan Expense	<u>1,951</u>
Post-retirement Healthcare:	
Normal cost	143
Interest on the liability	219
Losses/(gains) due to change in medical inflation rate assumptions	(128)
Total Post-retirement Healthcare Expense	<u>234</u>
Total MRS Expense	<u><b>\$2,185</b></u>

The USCG's MRS is comprised of the USCG Military Retirement System and the USCG Military Health Services System. The USCG's military service members (both active duty and reservists) participate in the MRS. USCG receives an annual "Retired Pay" appropriation to fund MRS benefits, thus the MRS is treated as a pay-as-you-go plan. The retirement system allows voluntary retirement for active members upon credit of at least 20 years of active service at any age. Reserve members may retire after 20 years of creditable service with benefits beginning at age 60. The health services plan is a post-retirement medical benefit plan, which covers all active duty and reserve members of the USCG. The retirement plan's only assets are accounts receivable representing unintentional overpayments of retiree benefits. The plan may subsequently recover such amounts through future benefit payment adjustments or may elect to waive its right to recover such amounts. The health services plan has no assets.

The unfunded accrued liability, presented as a component of the liability for military service and other retirement in the accompanying Consolidated Balance Sheet, represents both retired pay and health care benefits for non-Medicare eligible retirees/survivors. On October 1, 2002, USCG transferred the actuarial liability for payments for the health care benefits of Medicare eligible retirees and survivors to the Department of Defense Medicare-Eligible Retiree Health Care Fund (the Fund). USCG makes monthly payments to the Fund for current service members. Valuation of the plan's liability is based on the actuarial present value of accumulated plan benefits derived from the future payments that are attributable, under the retirement plan's provisions, to a participant's credited service as of the valuation date. 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 present value of future benefits is then converted to an unfunded accrued liability by subtracting the present value of future employer/employee normal contributions. USCG plan participants may retire after 20 years of active service at any age with annual benefits equal to 2.5 percent of retired base pay for each year of credited service up to 75 percent of basic pay. Personnel who became members after August 1, 1986 may elect to receive a \$30,000 lump sum bonus after 15 years of service and reduced benefits prior to age 62. Annual disability is equal to the retired pay base multiplied by the larger of (1) 2.5 percent times years of service, or (2) percent disability. The benefit cannot be more than 75 percent of retired pay base. If a USCG member is disabled, the member is entitled to disability benefits, assuming the disability is at least 30 percent (under a standard schedule of rating disabilities by Veterans Affairs) and either: (1) the member has 8 years of

# Financial Information

service, (2) the disability results from active duty, or (3) the disability occurred in the line of duty during a time of war or national emergency or certain other time periods.

Military retirement system changes from prior year consist of the following:

- (1) **Concurrent Receipts** – on November 24, 2003, Public Law 108-136 came into effect. This law approves the phase-in of full concurrent receipt of military retired pay and veterans' disability compensation for certain military retirees who have veterans' disability compensation rated at 50 percent or higher. These new benefits are to begin phase-in beginning January 1, 2004 until full implementation on January 1, 2014.
- (2) **Combat-Related Special Compensation (CRSC)** – the CRSC program became effective May 31, 2003, for qualified retirees with combat-related disabilities. CRSC benefits are available for retirees with 20 years of service and who have disabilities that are the direct result of armed conflict, especially hazardous military duty, or training exercises that simulate war, or are caused by an instrumentality of war. The retiree must be compensated by the Department of Veterans Affairs and rated at least 10 percent disabled. The amount of the CRSC benefits is equal to the amount of VA disability compensation offset from retired pay based on those disabilities determined to be combat-related.
- (3) **"Redux" Benefit** – prior assumptions of the percentages of Redux participants electing the \$30,000 lump sum for both officers and enlisted were 41.59 percent and 48.5 percent, respectively. The actual combined experience of those electing the Redux benefit is 37.5 percent. The current assumption has been reduced to 40 percent.

The significant actuarial assumptions used to compute the MRS accrued liability are:

- (a) life expectancy is based upon the DoD death mortality table;
- (b) cost of living increases are 3.0 percent annually; and
- (c) annual rate of investment return is 6.25 percent.

## **B. District of Columbia Police and Fireman's Retirement System for U.S. Secret Service Employees (unaudited)**

Special agents and personnel in certain job series hired by USSS before January 1, 1984, are eligible to transfer to the District of Columbia Police and Fireman's Retirement System (DC Pension Plan) after completion of ten years of protection related experience. All uniformed USSS officers who were hired before January 1, 1984, are automatically covered under this retirement system. Participants in the DC Pension Plan make contributions of 7 percent of base pay with no matching contribution made by USSS. Annuitants of this plan receive benefit payments directly from the DC Pension Plan. The 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 military service and other retirement benefits in the accompanying consolidated balance sheet. SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, requires the administrative entity (administrator) to report the actuarial liability. However, the USSS adopted the provisions of SFFAS No. 5 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 United States government wide consolidated financial statements.

The liability and expense are computed using the aggregate cost method. The primary actuarial assumptions used to determine the liability at September 30, 2004 are:

- (1) life expectancy is based upon the *1994 Uninsured Pension (UP94)* tables;

# Financial Information

- (2) cost of living increases are 3.5 percent annually;
- (3) rates of salary increases are 3.5 percent annually; and
- (4) annual rate of investment return is 7.25 percent.

Total expenses related to the DC Pension Plan for the fiscal year ended September 30, 2004, were \$173 million, of which \$16 million was funded but not paid at September 30, 2004.

## 17. Other Liabilities

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

	2004 (unaudited)	2003
<b>Intra-governmental:</b>		
Accrued FECA Liability	\$240	\$178
Advances from Others	139	77
Employer Benefits Contributions and Payroll Taxes	69	57
Other Intra-governmental Liabilities	115	37
<b>Total Intra-governmental Other Liabilities</b>	<b>563</b>	<b>349</b>
<b>Public:</b>		
Duties for Imports of Canadian Softwood Lumber (note 2)	2,940	1,439
Injured Domestic Industries (note 2)	332	247
Contingent Legal Liabilities (notes 12 and 19)	80	75
Capital Lease Liability (notes 12 and 18)	148	167
Environmental and Disposal Liabilities (notes 12 and 19)	159	98
Refunds and Drawbacks (note 2)	132	98
Other Public Liabilities	375	326
<b>Total Public Other Liabilities</b>	<b>4,166</b>	<b>2,450</b>
<b>Total Other Liabilities</b>	<b>\$4,729</b>	<b>\$2,799</b>

Intra-governmental accrued FECA liability primarily represents the unfunded workers' compensation for current claims. Intra-governmental other liabilities consist principally of current liabilities, while the majority of public other liabilities are considered non-current.

The *Continued Dumping and Subsidy Offset Act of 2000* calls for CBP to collect and disburse monies received in connection with antidumping and countervailing duty orders and findings to qualifying Injured Domestic Industries (IDI). Antidumping duties are collected when it is determined that a class or kind of foreign merchandise is being released into the U.S. economy at less than its fair value to the detriment of a U.S. industry. Countervailing duties are collected when it is determined that a foreign government is providing a subsidy to its local industries to manufacture, produce, or export a class or kind of merchandise for import into the U.S. commerce to the detriment of a U.S. industry. Antidumping and countervailing duties collected and due to IDIs at September 30, 2004 and 2003, totaled \$332 million and \$247 million, respectively. CBP has collected Canadian softwood lumber duties of \$2.9 billion and \$1.4 billion, respectively, as of September 30, 2004 and 2003. The duties will eventually be distributed, pursuant to rulings by the Department of Commerce (DOC). Duties for imports of Canadian softwood lumber are included in non-entity fund balance with Treasury, and represent a non-entity liability for which there is an anti-dumping dispute currently being litigated.

# Financial Information

## Refunds and Other Payments

Disbursements from the refunds and drawback account for the fiscal year ended September 30, 2004, and the seven months ended September 30, 2003 consisted of the following (in millions):

	2004 (unaudited)	2003
Refunds	\$566	\$399
Drawback	404	159
<b>Total</b>	<b>\$970</b>	<b>\$558</b>

The disbursements include interest payments of \$45 million. In certain instances, a refund may be identified prior to liquidation for amounts remitted by the importer. These refunds are funded from the collections rather than the refunds and drawback account. For the fiscal year ended September 30, 2004, these refunds totaled \$251 million.

Amounts refunded during the fiscal year ended September 30, 2004, identified by entry year, consisted of the following (in millions):

Entry Year:	2004 (unaudited)	2003
2004	\$531	\$ -
2003	128	314
2002	64	84
2001	24	52
Prior Years	223	108
<b>Total</b>	<b>\$970</b>	<b>\$558</b>

The disbursement totals for refunds include antidumping and countervailing duties collected that are refunded pursuant to rulings by the DOC. These duties are refunded when the DOC issues a decision in favor of the foreign industry.

The total amounts of antidumping and countervailing duties vary from year to year depending on decisions from DOC. Antidumping and countervailing duty refunds (included in total refunds presented above) and associated interest refunded for the fiscal year ended September 30, 2004 and the seven months ended September 30, 2003, consisted of the following (in millions):

	2004 (unaudited)	2003
Antidumping and countervailing duty refunds	\$75	\$57
Interest	19	13
<b>Total Antidumping and countervailing duty refunds</b>	<b>\$94</b>	<b>\$70</b>

# Financial Information

## 18. Leases

### A. Operating Leases (unaudited)

The Department leases various facilities and equipment under leases 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 Department is not committed to continue to pay rent to GSA beyond the period occupied providing proper advance notice to GSA is made and unless the space occupied is designated as unique to Department operations. However, it is expected the Department will continue to occupy and lease office space from GSA in future years and lease charges will be adjusted annually to reflect operating costs incurred by GSA.

As of September 30, 2004, estimated future minimum lease commitments under operating leases for equipment and GSA controlled leases are as follows (in millions):

	<b>GSA</b>	<b>Non-GSA</b>	<b>Total</b>
FY 2005	\$604	\$62	<b>\$666</b>
FY 2006	642	63	<b>705</b>
FY 2007	655	64	<b>719</b>
FY 2008	659	65	<b>724</b>
FY 2009	675	65	<b>740</b>
Beyond FY 2009	2,937	143	<b>3,080</b>
<b>Total future minimum lease payments</b>	<b>\$6,172</b>	<b>\$462</b>	<b>\$6,634</b>

The estimated future lease payments for GSA controlled leases are based on payments made during the year ended September 30, 2004. Lease payments to GSA are expected beyond fiscal year 2009; however, costs cannot be reasonably estimated.

### B. Capital Leases

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

Certain license agreements are cancelable depending on future funding. Substantially all of the net present value of capital lease obligations and software license agreements are expected to be funded from future sources.



## 19. Contingent Liabilities and Other Commitments

### A. Legal Contingent Liabilities

The estimated contingent liability recorded in the accompanying financial statements included with other liabilities for all probable and estimable litigation related claims at September 30, 2004, was \$80 million (unaudited), of which \$26 million is funded. (At September 30, 2003, the estimated contingent liability was \$75 million, of which \$17 million was funded). Asserted and pending legal claims for which loss is reasonably possible was estimated to range from \$3.8 billion to \$3.9 billion (unaudited), at September 30, 2004 and 2003. Approximately \$3.4 billion of this estimated range involves cases related to the 1995 bombing of Alfred P. Murrah Federal Building in Oklahoma City, that were transferred to the Department with the Federal Protective Service from the legacy agency.

The Department is subject to various other legal proceedings and claims. In management's opinion, the ultimate resolution of other actions will not materially affect the Department's financial position or net costs.

### B. Environmental Cleanup Liabilities

The Department is responsible to remediate its sites with environmental contamination, and is party to various administrative proceedings, legal actions and tort claims which 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 and 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* and the *Resource Conservation and Recovery Act*. Environmental cleanup liability of \$159 million (\$15 million funded) (unaudited), as of September 30, 2004 and \$98 million as of September 30, 2003, is presented with other liabilities in the accompanying Consolidated Balance Sheet. The liabilities consist primarily of fuel storage tank program, fuels, solvents, industrial, chemicals and other environmental cleanup associated with normal operations of the USCG. For Plum Island Animal Disease Center, under S&T, potential environmental liabilities that are not presently estimable could exist due to the facility's age, old building materials used and other materials associated with the facility's past use as a United States Army installation for coastline defense. Cost estimates for environmental and disposal liabilities are subject to revision as a result of changes in technology and environmental laws and regulations.

### C. NFIP Premiums

NFIP premium rates are generally established for actuarially rated policies with the intent of generating sufficient premiums to cover losses and loss adjustment expenses of a historical average loss year and to provide a surplus to compensate the Insurance Underwriting Operations for the loss potential of an unusually severe loss year due to catastrophic flooding. Notwithstanding the foregoing, subsidized rates are charged on a countrywide basis for certain classifications of 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. The subsidized rates do not include a provision for losses from catastrophic flooding. 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 non-subsidized premium zones applicable to the community). Any future loss potential of catastrophic flooding cannot be meaningfully quantified as it relates to insurance policies in effect. Accordingly, the financial statements do not include any liability provision for future loss due to catastrophic flooding.

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## **D. Duty and Trade Refunds**

There are various trade related matters that fall under the jurisdiction of other Federal agencies, such as the DOC, which may result in refunds of duties, taxes and fees collected by CBP, i.e., duties collected by CBP on imports of Canadian softwood lumber. Until a decision is reached by the other Federal agencies, CBP does not have sufficient information to estimate a contingent liability amount for trade related refunds under jurisdiction of other Federal agencies. All known refunds as of September 30, 2004, and 2003, have been recorded.

## **E. Loaned Aircraft and Equipment**

The Department is generally liable to the DoD for damage or loss to aircraft on loan to ICE. As of September 30, 2004, ICE had 16 aircraft loaned from DoD with an acquisition value of \$94 million (unaudited). (These aircraft were reported as on loan to CBP, as of September 30, 2003. During fiscal year 2004, CBP transferred these loaned aircraft to ICE.) No damage or aircraft losses were accrued as of September 30, 2004.

## **F. Other Contractual Arrangements**

In addition to future lease commitments discussed in Note 18, 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 amounted to \$21 billion in fiscal year 2004.

TSA entered into Letters of Intent with eight major airports in which TSA may reimburse the airports for 75 percent of the cost (estimated at \$957 million) needed to modify the facilities for security purposes. These Letters of Intent would not obligate or commit TSA until funds are authorized and appropriated. In addition, the airports shall have title to any improvements to its facilities. During fiscal years 2004 and 2003, approximately \$213 million and \$47 million, respectively, were appropriated, obligated and are available for payments to the airports upon submission to TSA of an invoice for the modification costs incurred. As of September 30, 2004, TSA has received invoices or documentation for cost incurred totaling over \$72 million related to fiscal year 2004 and 2003 Letters of Intent.

## 20. Consolidated Statement of Net Cost & Net Costs of DHS Components (unaudited)

Operating costs are summarized in the Consolidated Statement of Net Cost by responsibility segment, as applicable to the reporting period. The net cost of operations is the gross (i.e., total) cost incurred by the Department, less any exchange (i.e., earned) revenue. A responsibility segment is the component that carries out a mission or major line of activity, and whose managers report directly to Departmental Management. For fiscal year 2004 the Department's responsibility segments were responsible for accomplishing the three objectives of the President's *National Strategy for Homeland Security*.

During fiscal year 2004, the Department interpreted the National Strategy and developed its first Strategic Plan, which included seven goals:

1. **Awareness:** Identify and understand threats, assess vulnerabilities and determine potential impacts. Disseminate timely and actionable information to our homeland security partners and the American public.
2. **Prevention:** Detect, deter, thwart and mitigate threats to our homeland.
3. **Protection:** Safeguard our people and their freedoms, critical infrastructure, property and the economy of our Nation from acts of terrorism, natural disasters and other emergencies.
4. **Response:** Lead, manage and coordinate the national response to acts of terrorism, natural disasters and other emergencies.
5. **Recovery:** Lead national, state, local and private sector efforts to restore services and rebuild communities after any act of terrorism, natural disaster and other emergency.
6. **Service:** Serve the public effectively by facilitating lawful trade, travel and immigration.
7. **Organizational Excellence:** Value our most important resource, our people. Create a culture that promotes a common identify, innovation, mutual respect, accountability and teamwork to achieve efficiencies, effectiveness and operational synergies.

Beginning with the fiscal year 2005 budget, the Department integrated budget and performance information as required by the *President's Management Agenda* and the *Government Performance and Results Act*. To integrate performance and financial information, a supplemental schedule of net cost is included in Other Accompanying Information, in which costs by program are allocated to Departmental strategic goals.

Due to the complexity of the Border and Transportation Security Directorate organizational structure, a supplemental schedule is presented to show the net cost of the Directorate's sub organizations.

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Statement of Net Cost sub-schedule:

Components of Border and Transportation Security (BTS) Directorate (in millions)

For the year ended September 30, 2004 (unaudited)

	Intra-governmental	With the Public	Total
<b>BTS HQ (Office of Undersecretary)</b>			
Gross Cost	\$6	\$5	\$11
Less Earned Revenue	-	-	-
Net Cost	6	5	11
<b>CBP</b>			
Gross Cost	1,545	4,582	6,127
Less Earned Revenue	(62)	(273)	(335)
Net Cost	1,483	4,309	5,792
<b>ICE, FPS and FAM</b>			
Gross Cost	742	3,586	4,328
Less Earned Revenue	(366)	(12)	(378)
Net Cost	376	3,574	3,950
<b>TSA</b>			
Gross Cost	571	5,387	5,958
Less Earned Revenue	(95)	(2,071)	(2,166)
Net Cost	476	3,316	3,792
<b>SLGCP</b>			
Gross Cost	151	1,698	1,849
Less Earned Revenue	(2)	(1)	(3)
Net Cost	149	1,697	1,846
<b>FLETC</b>			
Gross Cost	27	195	222
Less Earned Revenue	(24)	(2)	(26)
Net Cost	3	193	196
<b>BTS Directorate Total</b>			
Gross Cost	3,042	15,453	18,495
Less Earned Revenue	(549)	(2,359)	(2,908)
<b>NET COST - BTS</b>	<b>\$2,493</b>	<b>\$13,094</b>	<b>\$15,587</b>

# Financial Information

## 21. Gross Cost and Earned Revenue by Budget Subfunction (BSF) Classification (unaudited)

The Department's costs and revenue are included in the Financial Report of the U.S. Government, which is published by the Department of the Treasury. The Financial Report of the U.S. Government presents gross costs and earned revenue by budget subfunction (BSF). The following is the Department's gross cost and earned (exchange) revenue by BSF for the year ended September 30, 2004 (in Millions) and reported net of intra-departmental eliminations:

	National Defense	Pollution Control & Abatement	Agricultural Research & Services	Transportation	Community & Regional Development	Income Security	Administration of Justice	General Government	2004 Total
<b>Agency Gross Cost:</b>									
Gross Cost - Federal	\$769	\$19	\$31	\$1,723	\$896	\$-	\$3,712	\$337	\$7,487
Less: Intra-Departmental Eliminations	(15)	-	(4)	(27)	(30)	-	(447)	(160)	(683)
Inter-Departmental Gross Cost - Federal	754	19	27	1,696	866	-	3,265	177	6,804
Gross Cost - Public	563	95	(269)	13,017	7,586	152	10,733	865	32,742
Agency Gross Cost	\$1,317	\$114	(\$242)	\$14,713	\$8,452	\$152	\$13,998	\$1,042	\$39,546
<b>Agency Exchange Revenue:</b>									
Exchange Revenue - Federal	\$1	\$-	\$109	\$316	\$151	\$-	\$532	\$336	\$1,445
Less: Intra-Departmental Eliminations	(1)	-	(72)	(131)	(31)	-	(358)	(86)	(679)
Inter-Dept. Exchange Revenue - Federal	-	-	37	185	120	-	174	250	766
Exchange Revenue - Public	-	17	5	2,121	1,901	-	1,546	62	5,652
Agency Exchange Revenue	\$-	\$17	\$42	\$2,306	\$2,021	\$-	\$1,720	\$312	\$6,418
<b>Agency Net Cost</b>	<b>\$1,317</b>	<b>\$97</b>	<b>(\$284)</b>	<b>\$12,407</b>	<b>\$6,431</b>	<b>\$152</b>	<b>\$12,278</b>	<b>\$730</b>	<b>\$33,128</b>

# Financial Information

## 22. Combined Statement of Budgetary Resources (SBR) (unaudited)

The Combined Statement of Budgetary Resources (SBR) provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement exclusively derived from the entity's budgetary general ledger in accordance with budgetary accounting rules that are incorporated into generally accepted accounting principles for the Federal Government. The total Budgetary Resources of \$53,879 million for fiscal year 2004 includes new budget authority, unobligated balances at the beginning of the year and transferred in/out, spending authority from offsetting collections, recoveries of prior year obligations and adjustments.

### A. Appropriations Received

Appropriations received on the SBR of \$38,303 million will not match the amounts reported on the Consolidated Statement of Changes in Net Position (SCNP) of \$33,410 million due to \$4,893 million of trust and special fund receipts that are not reflected in the unexpended appropriations section of the SCNP.

### B. Permanently Not Available/Adjustments

Budgetary resources permanently not available on the SBR of \$2,563 million do not agree with the unavailable appropriations returned to Treasury of \$2,398 million on the SCNP due to: (1) reclassification of trust funds from unexpended appropriation to cumulative net results of operations which has no effect on the SBR; (2) authority permanently unavailable that was processed through cumulative results of operations and not unexpended appropriations; (3) repayments of debt that were processed through payables and not unexpended appropriations; and (4) reductions of borrowing authority that have no effect on the proprietary accounts.

### C. Apportionment Categories of Obligations Incurred

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

	Apportionment Category A	Apportionment Category B	Exempt from Apportionment	Total
Obligations Incurred - Direct	\$24,260	\$18,634	\$734	\$43,628
Obligations Incurred - Reimbursable	2,015	854	11	2,880
<b>Total Obligations Incurred</b>	<b>\$26,275</b>	<b>\$19,488</b>	<b>\$745</b>	<b>\$46,508</b>

### D. Borrowing Authority for EPR

The NFIP has borrowing authority of \$1.5 billion available as of September 30, 2004 for disaster relief purposes. NFIP loans are for a three-year term. Interest rates are obtained from the Bureau of Public Debt. Simple interest is calculated monthly, and is offset by any interest rebate, if applicable. Interest is paid semi-annually on October 1 and April 1. Partial loan repayments are permitted. Principal repayments are required only at maturity, but are

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permitted at any time during the term of the loan. At the end of the fiscal year, borrowing authority is reduced by the amount of any unused portion. EPR's liability for borrowed amounts was \$8 million at September 30, 2004.

Under Credit Reform, the unsubsidized portion of direct loans is borrowed from the Treasury. The repayment terms of EPR's borrowing from Treasury are based on the life of each cohort of direct loans. Proceeds from collections of principal and interest from the borrowers are used to repay the Treasury. In addition, an annual reestimate is performed to determine any change from the original subsidy rate. If an upward reestimate is determined to be necessary, these funds are available through permanent indefinite authority. Once these funds are appropriated, the original borrowings are repaid to the Treasury.

EPR maintains three funds under the *Credit Reform Act*:

- 70-4234: Disaster Assistance Direct Loan Financing
- 70-0703: Disaster Assistance Direct Loan Program (no-year)
- 70-0703: Disaster Assistance Direct Loan Program (annual)

## E. Non-Budgetary, Credit Program and Financing Account

Included in the SBR are amounts for the Department's one financing account in EPR for Disaster Assistance Direct Loan. This non-budgetary financing account is not presented separately on the SBR because the amounts and impact are immaterial. Financing account information for the fiscal year ended September 30, 2004 is presented below (in millions):

### Budgetary Resources

Budget Authority:	
Borrowing Authority	\$26
Spending Authority from Offsetting Collections:	
Receivable from Federal Sources	(3)
Recoveries of Prior Year Obligations	3
Permanently Not Available:	
Other Authority Withdrawn	(26)
<b>Total Budgetary Resources</b>	<b>\$0</b>
<b>Total Status of Budgetary Resources</b>	<b>\$0</b>
<b>Total Outlays</b>	<b>\$0</b>

## F. Explanation of Differences between the Combined Statement of Budgetary Resources and the Budget of the United States Government

The SBR has been prepared to coincide with the amounts shown in the President's Budget (Budget of the U.S. Government). The actual amounts for fiscal year 2004 in the President's Budget have not been published at the time these financial statements were prepared. The President's Budget with the actual fiscal year 2003 amounts was released in February 2004, and the actual fiscal year 2004 amounts are estimated to be released in February 2005.

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The Department's fiscal year 2003 budget amounts does not match the fiscal year 2003 President's Budget, primarily due to the SBR reflecting only seven months covering the period from March 1, 2003 to September 30, 2003, whereas the President's Budget has been annualized and covers the period from October 1, 2002 to September 30, 2003. The SBR includes expired appropriations while the Budget does not.

## G. Adjustments to Beginning Balance of Budgetary Resources

The Oil Spill Liability Trust Fund is managed by the U.S. Department of Treasury's Bureau of Public Debt (BPD). During fiscal year 2004, the Office of Budget and Management (OMB) directed two adjustments to comply with *OMB Circular A-11* and applicable *U.S. Standard General Ledger Guidance*. The BPD was first required to change Federal Agencies' Centralized Trial-Balance System (FACTS II) budgetary reporting to reflect receipts unavailable for obligation upon collection, rather than unobligated funds exempt from apportionment. The second change required adjusting the Fund's beginning balances to reflect investment authority available. These changes required a downward adjustment of \$782 million to the unobligated balance as presented in the Statement of Budgetary Resources.

## 23. Permanent Indefinite Appropriations

Permanent indefinite appropriations refer to the 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 has two permanent indefinite appropriations as follows:

- CBP has a permanent and indefinite appropriation, which is used to disburse tax and duty refunds, and duty drawbacks. Although funded through appropriations, refund and drawback activity is, in most instances, reported as a custodial activity of the Department. This presentation is appropriate because refunds are custodial revenue-related activity in that refunds are a direct result of taxpayer overpayments of their tax liabilities. Federal tax revenue received from taxpayers is not available for use in the operation of the Department and is not reported on the Consolidated Statement of Net Cost. Likewise, the refunds of overpayments are not available for use by the Department in its operations. Refunds and drawback disbursements totaled \$970 million (unaudited) for the fiscal year ended September 30, 2004 and \$558 for the seven months ended September 30, 2003, and are presented as a use of custodial revenue on the Statement of Custodial Activity.
- USSS has a permanent and indefinite appropriation, which is used to reimburse the District of Columbia Police and Fireman's Retirement System (DC Pension Plan) for the difference between benefits provided to the annuitants (employees) eligible to participate in the DC Pension Plan (see note 16), and payroll contributions received from current employees.

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

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

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



Included in the cumulative results of operations for special funds is \$1,015 million 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, 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. In addition, the Department is required to maintain \$30 million in its User Fees Account. Part of the passenger fees in the User Fees Account, totaling approximately \$730 million (unaudited) and \$640 million at September 30, 2004 and 2003 respectively, is restricted by law in its use to offset specific costs incurred by the Department and are available to the extent provided in Department Appropriation Acts.

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 the Relationship Between Liabilities Not Covered by Budgetary Resources and the Changes in Components Requiring or Generating Resources in Future Periods (unaudited)**

The relationship between the amounts reported as liabilities not covered by budgetary resources on the balance sheet and amounts reported as components requiring or generating resources in future periods on the Statement of Financing were analyzed. The differences are primarily due to the increase in the USCG actuarial pension liability of \$1.3 billion in fiscal year 2004, which does not generate net cost of operations or require the use of budgetary resources.

## **26. Dedicated Collections**

The Department administers various Trust Funds that receive dedicated collections. In the U.S. Government budget, Trust Funds are accounted for separately and used only for specified purposes. A brief description of the major Trust Funds and their purpose follows.

### **A. Oil Spill Liability Trust Fund**

The Oil Spill Liability Trust Fund (OSLTF) was established by the *Oil Pollution Act (OPA) of 1990, P.L. 101-380*, to help facilitate cleanup activities and compensate for damages from oil spills. The OSLTF account includes the parent OSLTF fund that is managed by BPD, the USCG Oil Spill Recovery transfer account, the USCG Trust Fund Share of Expenses transfer account and the USCG OPA Claims transfer account. These three transfer accounts fund outlays through SF-1151 non-expenditure transfers from the BPD OSLTF parent fund.

# Financial Information

## B. Boat Safety Account

The USCG's Boat Safety Account was established by *Federal Boat Safety Act (FBSA) of 1971, P.L. 92-75*, to "encourage greater State participation and uniformity in boating safety efforts, and particularly to permit the States to assume the greater share of boating safety education, assistance and enforcement activities." The Boat Safety Account receives funding from the Department of Interior's Sport Fish Restoration Account, which is funded in part from the Aquatic Resource Trust Fund (ARTF) managed by Bureau of Public Debt (BPD). Funds are available until expended (no-year). Outlays in this account are funded through SF-1151 non-expenditure transfers from the Sport Fish account.

Condensed financial information as of and for the fiscal year ended September 30, 2004 and as of and for the seven months ended September 30, 2003, is presented below (in millions):

	2004 (unaudited)		2003	
	Oil Spill Liability Trust Fund	Boat Safety Account	Oil Spill Liability Trust Fund	Boat Safety Account
<b>Assets:</b>				
Investments	\$838	\$ -	\$965	\$ -
Other Assets	26	68	48	58
<b>Total Assets</b>	<b>\$864</b>	<b>\$68</b>	<b>\$1,013</b>	<b>\$58</b>
<b>Liabilities:</b>				
Accounts Payable	\$1	\$19	\$ -	\$23
Other Liabilities	-	-	3	-
<b>Total Liabilities</b>	<b>1</b>	<b>19</b>	<b>3</b>	<b>23</b>
<b>Net Position:</b>				
Transfers In without Reimbursement	1,010	35	1,000	100
Non-Exchange Revenue	(32)	64	52	-
Less: Program Expenses	(115)	(50)	(42)	(65)
<b>Net Position</b>	<b>863</b>	<b>49</b>	<b>1,010</b>	<b>35</b>
<b>Total Liabilities and Net Position</b>	<b>\$864</b>	<b>\$68</b>	<b>\$1,013</b>	<b>\$58</b>

# Financial Information

## 27. Transfer of the Strategic National Stockpile (unaudited)

The transfer of the Strategic National Stockpile (SNS) pursuant to *Project Bioshield Act of 2004* had an effect on all of the Department's fiscal year 2004 financial statements, except for the Statement of Custodial Activity.

The following lines on the Department's Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Consolidated Statement of Financing and Combined Statement of Budgetary Resources include the transfer out of assets, liabilities, net position and budgetary resources of the SNS as of August 13, 2004, the date of transfer.

### Consolidated Balance Sheet (In Millions)

Fund Balance with Treasury	\$626
Operating Materials and Supplies, Inventory and Stockpile	924
Property, Plant and Equipment, Net	5
Total Assets	<u>\$1,555</u>
Accounts Payable	\$88
Unexpended Appropriations	538
Cumulative Results of Operations	929
Total Liabilities and Net Position	<u>\$1,555</u>

### Consolidated Statement of Net Cost (In Millions)

Costs – Intra-governmental	\$98
Less Earned Revenue – Intra-governmental	-
Net Cost – Intra-governmental	<u>\$98</u>
Costs – With the Public	\$-
Less Earned Revenue – With the Public	-
Net Cost – With the Public	<u>\$-</u>
Net Cost of Operation	<u>\$98</u>

# Financial Information

## Consolidated Statement of Changes in Net Position (SCNP) and Consolidated Statement of Financing (SOF) (In Millions)

Appropriations Transferred In/Out (Unexpended Appropriations) – SCNP only	\$538
Other Financing Sources (Non-Exchange): Transfers In/Out without Reimbursement (Cumulative Results) – Both SCNP and SOF	<u>\$929</u>

## Combined Statements of Budgetary Resources (In Millions)

Budgetary Resources – Budget Authority – Net Transfers, Current Year	\$11
Budgetary Resources – Budget Authority – Net Transfers, Balance	<u>\$53</u>
Budgetary Resources – Unobligated Balance – Net Transfers	\$64
Budgetary Resources – Relationship of Obligations to Outlays – Obligated Balance Transferred, Net	<u>\$561</u>

## Required Supplementary Information (unaudited)

### Deferred Maintenance

The Department components use condition assessment as the method for determining the deferred maintenance for each class of asset. The procedure includes reviewing equipment, building and other structure logistic reports. Component logistic personnel identify maintenance not performed as scheduled and establish future performance dates. Logistic personnel use a condition assessment survey to determine the status of referenced assets according to the range of conditions shown below:

**Good.** Facility/equipment condition meets established maintenance standards, operates efficiently and has a normal life expectancy. Scheduled maintenance should be sufficient to maintain the current condition. There is no deferred maintenance on buildings or equipment in good condition.

**Fair.** Facility/equipment condition meets minimum standards but requires additional maintenance or repair to prevent further deterioration, increase operating efficiency and to achieve normal life expectancy.

**Poor.** Facility/equipment does not meet most maintenance standards and requires frequent repairs to prevent accelerated deterioration and provide a minimal level of operating function. In some cases, this includes condemned or failed facilities. Based on periodic condition assessments, an indicator of condition is the percent of facilities and item of equipment in each of the good, fair, or poor categories.

In fiscal year 2004, the Department reported \$591 million in deferred maintenance on general property, plant and equipment and heritage assets. This amount represents maintenance on vehicles, vessels and buildings and structures owned by the Department that was not performed when it should have been or was scheduled to be and which is delayed for a future period.

A summary of deferred maintenance at September 30, 2004 is presented below (in millions):

	<b>Deferred Maintenance</b>	<b>Asset Condition</b>
Building & Structures	\$467	Poor to Fair
Equipment (vehicles and vessels)	92	Poor to Fair
Heritage assets	32	Poor to Fair
<b>Total</b>	<b>\$591</b>	

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

# Financial Information

## Intra-Governmental Transaction Disclosures

Intra-governmental transaction amounts represent transactions between Federal entities included in the Financial Report of the U.S. Government (formerly the Consolidated Financial Statements of the U.S. Government) published by the U.S. Department of the Treasury. All amounts presented are net of intra-departmental eliminations.

The amount of intra-governmental assets and liabilities classified by trading partner at September 30, 2004 and 2003, are summarized below (in millions).

### Intra-governmental Assets as of September 30, 2004 (In Millions)

<b>Partner Agency</b>	<b>Fund Balance with Treasury</b>	<b>Investments and Related Interest</b>	<b>Advances and Prepayments</b>	<b>Other</b>
Treasury General Fund	\$ -	\$-	\$ -	\$170
Department of Commerce	-	-	3	-
Department of Interior	-	-	-	69
Department of Justice	-	-	83	61
Department of Labor	-	-	63	-
Department of the Navy	-	-	12	17
Department of State	-	-	-	13
Department of Treasury	33,436	1,625	15	40
Social Security Administration	-	-	-	5
Department of the Army	-	-	-	12
National Science Foundation	-	-	-	6
Department of Transportation	-	-	2,673	6
Office of the Secretary of Defense Agencies	-	-	37	80
Other	-	-	-	2
<b>Totals</b>	<b>\$33,436</b>	<b>\$1,625</b>	<b>\$2,886</b>	<b>\$481</b>

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

# Financial Information

## Intra-governmental Assets as of September 30, 2003 (In Millions)

<b>Partner Agency</b>	<b>Fund Balance with Treasury</b>	<b>Investments and Related Interest</b>	<b>Advances and Prepayments</b>	<b>Other</b>
Treasury General Fund	\$ -	\$ -	\$ -	\$109
Department of Commerce	-	-	10	-
Department of Interior	-	-	8	62
Department of Justice	-	-	11	54
Department of the Navy	-	-	87	(113)
Department of State	-	-	-	23
Department of Treasury	27,343	1,546	32	184
General Services Administration	-	-	-	7
National Science Foundation	-	-	-	8
Environmental Protection Agency	-	-	-	5
Department of Transportation	-	-	2,772	40
Dept of Health & Human Services	-	-	37	-
U.S. Army Corps of Engineers	-	-	-	7
Office of the Secretary of Defense Agencies	-	-	-	40
Other	-	-	97	(11)
<b>Totals</b>	<b>\$27,343</b>	<b>\$1,546</b>	<b>\$3,054</b>	<b>\$415</b>

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

# Financial Information

## Intra-governmental Liabilities as of September 30, 2004 (In Millions)

Partner Agency	Due to Treasury	Accounts Payable	Other
Treasury General Fund	\$1,257	\$ -	\$8
Department of Agriculture	-	16	2
Department of Commerce	-	-	-
Department of Interior	-	12	-
Department of Justice	-	123	30
Department of Labor	-	-	242
Department of the Navy	-	38	7
Department of State	-	7	13
Department of Treasury	-	(4)	26
Department of Veterans Affairs	-	10	4
Department of the Army	-	24	41
Office of Personnel Management	-	4	52
Social Security Administration	-	-	9
General Services Administration	-	18	63
Environmental Protection Agency	-	10	1
Department of the Air Force	-	18	2
Department of Transportation	-	12	34
Department of Health & Human Services	-	40	6
Department of Energy	-	127	3
U.S. Army Corps of Engineers	-	136	-
Office of the Secretary of Defense Agencies	-	316	12
Other	-	4	8
<b>Totals</b>	<b>\$1,257</b>	<b>\$911</b>	<b>\$563</b>

See accompanying Independent Auditors' Report.  
Required Supplementary Information



# Financial Information

## Intra-governmental Liabilities as of September 30, 2003 (In Millions)

Partner Agency	Due to Treasury	Accounts Payable	Other
Treasury General Fund	\$1,209	\$-	\$3
Department of Justice	-	17	6
Department of Labor	-	-	184
Department of the Navy	-	78	(10)
Department of State	-	4	5
Department of Treasury	-	5	10
Department of the Army	-	6	-
Office of Personnel Management	-	-	27
General Services Administration	-	57	10
Department of Transportation	-	-	34
Department of Health & Human Services	-	24	-
U.S. Army Corps of Engineers	-	20	59
Office of the Secretary of Defense Agencies	-	124	9
Other	-	63	12
<b>Totals</b>	<b>\$1,209</b>	<b>\$398</b>	<b>\$349</b>

See accompanying Independent Auditors' Report.  
Required Supplementary Information

# Financial Information

## FY 2004 Intra-governmental Exchange Revenue from Trade Transactions (In Millions)

<b>Partner Agency</b>	<b>Exchange Revenue</b>
Executive Office of the President	\$8
Department of Agriculture	7
Department of Commerce	7
Department of Interior	7
Department of Justice	152
Department of the Navy	24
Department of State	52
Department of Treasury	70
Department of the Army	102
Social Security Administration	101
General Services Administration	16
National Science Foundation	13
Environmental Protection Agency	25
Department of Transportation	135
Department of Health & Human Services	19
Department of Education	7
National Transportation Safety Board	16
Other	5
<b>Totals</b>	<b>\$766</b>

## FY 2004 Cost to Generate Intra-governmental Exchange Revenue, by BSF (In Millions)

<b>Budget Subfunction</b>	<b>Cost</b>
Transportation	\$123
Community and Regional Development	87
Administration of Justice	147
General Government	840
<b>Total</b>	<b>\$1,197</b>

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

# Financial Information

## **FY 2004 Intra-governmental Non-Exchange Revenue (In Millions)**

<b>Partner Agency</b>	<b>Transfers-In</b>	<b>Transfers-Out</b>
Department of Interior	\$ -	\$7
Department of Treasury	240	161
General Services Administration	101	-
Environmental Protection Agency	-	16
Department of Transportation	-	13
Other	2	5
<b>Totals</b>	<b>\$343</b>	<b>\$202</b>

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

# Financial Information

## Combined Schedule of FY 2004 Budgetary Resources by Responsibility Segments (In Millions)

BUDGETARY RESOURCES	Border and Transport- ation Security	Emergency Preparedness & Response	Information Analysis & Infrastructure Protection	Science & Technology	U.S. Coast Guard	U.S. Secret Service	U.S. Citizenship & Immigration Services	Depart- mental Offices & Other	Total
Budget Authority:									
Appropriations Received	\$19,467	\$6,793	\$839	\$918	\$6,928	\$1,341	\$1,551	\$466	\$38,303
Borrowing Authority	-	26	-	-	-	-	-	-	26
Net Transfers	619	(63)	-	-	204	-	(25)	22	757
Unobligated Balance:									
Beginning of Period	3,464	3,306	25	352	1,023	101	190	198	8,659
Net Transfers	76	(45)	11	-	-	(1)	-	-	41
Spending Authority from Offsetting Collections:									
Earned:									
Collected	3,843	2,046	1	-	311	27	11	43	6,282
Receivable from Federal Sources	(30)	(3)	-	-	42	-	(4)	4	9
Change in Unfilled Customer Orders:									
Advances Received	37	25	-	22	(25)	22	10	(4)	87
Without Advances From Federal Sources	(21)	215	-	2	(5)	(2)	7	62	258
Transfers from Trust Funds	3	-	-	-	52	-	-	-	55
<b>Total Spending Authority from Offsetting Collections</b>	<b>3,832</b>	<b>2,283</b>	<b>1</b>	<b>24</b>	<b>375</b>	<b>47</b>	<b>24</b>	<b>105</b>	<b>6,691</b>

(continued)

See accompanying Independent Auditors' Report.  
Required Supplementary Information

## Combined Schedule of FY 2004 Budgetary Resources by Responsibility Segments (In Millions), continued

	Border and Transport- ation Security	Emergency Preparedness & Response	Information Analysis & Infrastructure Protection	Science & Technology	U.S. Coast Guard	U.S. Secret Service	U.S. Citizenship & Immigration Services	Depart- mental Offices & Other	Total
Recoveries of Prior Year Obligations	1,220	483	6	-	63	16	187	7	1,982
Temporarily Not Available Pursuant to Public Law	-	(17)	-	-	-	-	-	-	(17)
Permanently Not Available	(2,056)	(288)	(15)	(5)	(145)	(46)	(4)	(4)	(2,563)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$26,622</b>	<b>\$12,478</b>	<b>\$867</b>	<b>\$1,289</b>	<b>\$8,448</b>	<b>\$1,458</b>	<b>\$1,923</b>	<b>\$794</b>	<b>\$53,879</b>
<b>STATUS OF BUDGETARY RESOURCES</b>									
Obligations Incurred:									
Direct	\$21,543	\$9,958	\$760	\$891	\$7,021	\$1,362	\$1,557	\$536	\$43,628
Reimbursable	1,934	389	1	17	350	42	49	98	2,880
Total Obligations Incurred	23,477	10,347	761	908	7,371	1,404	1,606	634	46,508
Unobligated Balances Available:									
Apportioned	2,091	2,026	80	381	858	11	110	134	5,691
Exempt from Apportionment	-	10	-	-	32	-	-	-	42
Unobligated Balances Not Available	1,054	95	26	-	187	43	207	26	1,638
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$26,622</b>	<b>\$12,478</b>	<b>\$867</b>	<b>\$1,289</b>	<b>\$8,448</b>	<b>\$1,458</b>	<b>\$1,923</b>	<b>\$794</b>	<b>\$53,879</b>

(continued)

See accompanying Independent Auditors' Report.  
Required Supplementary Information

# Financial Information

## Combined Schedule of FY 2004 Budgetary Resources by Responsibility Segments (In Millions), continued

	Border and Transportation Security	Emergency Preparedness & Response	Information Analysis & Infrastructure Protection	Science & Technology	U.S. Coast Guard	U.S. Secret Service	U.S. Citizenship & Immigration Services	Depart- mental Offices & Other	Total
<b>RELATIONSHIP OF OBLIGATIONS TO</b>									
<b>OUTLAYS</b>									
Obligated Balance, Net, Beginning of Period	\$7,605	\$8,038	\$192	\$119	\$2,489	\$268	\$679	\$299	\$19,689
Obligated Balance Transferred, Net	-	(561)	2	-	-	-	-	-	(559)
Obligated Balance, Net, End of Period:									
Accounts Receivable	(198)	(21)	-	-	(145)	-	(69)	(4)	(437)
Unfilled Customer Orders from Federal Sources	(488)	(336)	(1)	(2)	(72)	(9)	(2)	(71)	(981)
Undelivered Orders	9,035	8,463	412	356	2,044	246	427	371	21,354
Accounts Payable	2,378	2,038	140	217	751	54	176	112	5,866
<b>Total Obligated Balance, Net, End of Period</b>	<b>\$10,727</b>	<b>\$10,144</b>	<b>\$551</b>	<b>\$571</b>	<b>\$2,578</b>	<b>\$291</b>	<b>\$532</b>	<b>\$408</b>	<b>\$25,802</b>
Outlays:									
Disbursements	\$19,200	\$6,983	\$400	\$455	\$7,182	\$1,368	\$1,563	\$450	\$37,601
Collections	(3,883)	(2,070)	(1)	(23)	(339)	(49)	(21)	(38)	(6,424)
Total Outlays	15,317	4,913	399	432	6,843	1,319	1,542	412	31,177
Less: Offsetting Receipts	(2,292)	(2)	-	-	(20)	(1)	(1,464)	-	(3,779)
<b>NET OUTLAYS</b>	<b>\$13,025</b>	<b>\$4,911</b>	<b>\$399</b>	<b>\$432</b>	<b>\$6,823</b>	<b>\$1,318</b>	<b>\$78</b>	<b>\$412</b>	<b>\$27,398</b>

See accompanying Independent Auditors' Report.  
Required Supplementary Information

# Financial Information

## **Custodial Activity**

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

CBP reviews selected documents to ensure all duties, taxes and fees owed to the Federal Government are paid and to ensure regulations are followed. If CBP believes duties, taxes, fees, fines, or penalties are due in addition to estimated amounts previously paid by the importer/violator, the importer/violator is notified of the additional amount due. CBP regulations allow the importer/violator to file a protest on the additional amount due for review by the Port Director. A protest allows the importer/violator the opportunity to submit additional documentation supporting their claim of a lower amount due or to cancel the additional amount due in its entirety. Work in progress will continue until all protest options have expired or an agreement is reached. During this protest period, CBP does not have a legal right to the importer/violator's assets, and consequently CBP recognizes accounts receivable only when the protest period has expired or an agreement is reached. For fiscal year 2004, CBP had legal right to collect \$1.3 billion of receivables. In addition, there is an additional \$1.58 billion representing records still in the protest phase. CBP recognized as write-offs \$136 million of assessments that the Department has statutory authority to collect at yearend, but has no future collection potential. Most of this amount represents fines, penalties and interest. CBP also estimated that trust funds are neither overstated nor understated as of September 30, 2004.

USCG collects various fines, penalties and miscellaneous user fees from the public that are deposited to the general fund miscellaneous receipts of the U.S. Treasury. USCG does not collect taxes or duties. As of September 30, 2004, USCG had outstanding general fund receipt receivables due to the Treasury General Fund of \$14 million.

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

# Financial Information

## Segment Information (in millions):

	September 30, 2004			September 30, 2003		
	Working Capital Fund	Revolving Fund: Supply	Revolving Fund: Yard	Working Capital Fund	Revolving Fund: Supply	Revolving Fund: Yard
Fund Balance with Treasury	\$51	\$32	\$30	\$90	\$12	\$51
Accounts Receivable	4	6	6	1	14	1
Property, Plant and equipment	-	-	55	28	-	55
Other Assets	-	36	14	10	41	(45)
<b>Total Assets</b>	<b>\$55</b>	<b>\$74</b>	<b>\$105</b>	<b>\$129</b>	<b>\$67</b>	<b>\$62</b>
Accounts Payable	\$3	\$23	\$3	\$1	\$13	(\$3)
Other Liabilities	-	-	47	7	-	9
<b>Total Liabilities</b>	<b>3</b>	<b>23</b>	<b>50</b>	<b>8</b>	<b>13</b>	<b>6</b>
Cumulative Results of Operations	52	51	55	121	54	56
<b>Total Liabilities and Net Position</b>	<b>\$55</b>	<b>\$74</b>	<b>\$105</b>	<b>\$129</b>	<b>\$67</b>	<b>\$62</b>
Total Costs	\$77	\$99	\$79	\$16	\$3	\$8
Exchange Revenue	8	96	78	26	7	7
Excess of Revenues and Financing Sources over Costs	(\$69)	(\$3)	(\$1)	\$10	\$4	(\$1)

The Department's Working Capital Fund (WCF) is a fee-for-service entity that is fully reimbursable. The WCF provides a variety of support services primarily to the Department's components, and to other Federal entities. The WCF operates on a revolving fund basis, whereby current-operating expenses charged to the customer finance the cost of goods and services. The overall financial goal of the fund is to fully cover the operating expenses while building a minimal capital improvement reserve.

The USCG Yard revolving fund (Yard Fund) finances the industrial operations at the USCG Yard in Curtis Bay, Maryland and other USCG industrial sites. The USCG Supply revolving fund (Supply Fund) finances the procurement of uniform clothing, commissary provisions at USCG dining facilities, general stores, technical material and fuel for vessels over 180 feet in length.

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**



# Financial Information

## **Risk Assumed Information**

The Department has performed an analysis of the contingencies associated with the unearned premium reserve for the National Flood Insurance Program (NFIP). That analysis shows unearned premium reserve is greater than the combined values of (i) the estimated present value of unpaid expected losses and (ii) other operating expenses associated with existing policy contracts. Therefore, the Department can state the unearned premium reserve will be adequate to pay future losses and other operating expenses associated with existing policy contracts. However, there is a remote chance that the volume of flood losses in the next year could exceed the unearned premium reserve.

Our estimate of the present value of unpaid expected losses is based on a loss ratio (losses to premium), which is then multiplied by the current unearned premium reserve. This loss ratio is derived from the NFIP actual historical premium, historical losses and historical mix of business, each adjusted to today's level. More specifically, historical premiums have been adjusted to reflect the premium levels of the present by making adjustments for historical rate changes and historical changes in coverage amounts. Historical losses have been adjusted for inflation, using inflation indexes such as the Consumer Price Index as well as chain price indexes, to reflect the values that historical losses would settle as if they were settled today. In addition, the historical mix of business is adjusted to reflect today's mix of business. Examples of how the historical mix of business includes proportionately fewer pre-firm policies versus post-firm policies are in force today. Also, there are proportionately more preferred risk policies in force than in past years.

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

## Required Supplementary Stewardship Information (unaudited)

### Heritage Assets

USCG and CBP maintain heritage assets, located in the United States, including the commonwealth of Puerto Rico. Heritage assets are property, plant and equipment that have historical or national significance; cultural, educational, or artistic importance; or significant architectural characteristics. Heritage assets are generally expected to be preserved indefinitely. Multi-use heritage assets have more than one purpose such as an operational purpose and historical purpose.

The following table summarizes activity related to Heritage Assets from October 1, 2003, to September 30, 2004 (in number of units).

	USCG	CBP	Total
<b>Beginning Balance</b>	\$19,619	4	<b>19,623</b>
Additions	516	-	<b>516</b>
Withdrawals	(205)	-	<b>(205)</b>
<b>Ending Balance</b>	<b>\$19,930</b>	<b>4</b>	<b>19,934</b>

USCG possesses artifacts that can be divided into four general areas: ship's equipment, lighthouse and other aids-to-navigation items, military uniforms and display models. The addition of artifacts is the result of gifts to USCG.

- Ship's equipment is generally acquired when the ship is decommissioned and includes small items such as sextants, ship's clocks, wall plaques, steering wheels, bells, binnacles, engine order telegraphs and ship's name boards. Conditions will vary based upon use and age.
- Aids-to-navigation items include fog and buoy bells, lanterns, lamp changing apparatus and lighthouse lenses. Buoy equipment is usually acquired when new technology renders the equipment obsolete. Classical lighthouse lenses can vary in condition. The condition is normally dependent on how long the item has been out of service. The lenses go to local museums or USCG bases as display items.
- Military uniforms are generally donated by retired USCG members and include clothing as well as insignia and accessories. Most clothing is in fair to good condition, particularly full dress items.
- Display models are mostly of USCG vessels and aircraft. These are often builders' models. Display models are generally in very good condition. Builders' models are acquired by USCG as part of the contracts with the ship or aircraft builders. The withdrawal of display models normally results from excessive wear.

**See accompanying Independent Auditors' Report.  
Required Supplementary Stewardship Information**

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The USCG also has non-collection type heritage assets, such as sunken vessels and aircraft under the property clause of the *U.S. Constitution*, Articles 95 and 96 of the *International Law of the Sea Convention* 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 who were lost at sea, to prevent the unauthorized handling of explosives or ordnance which may be aboard and to preserve culturally valuable relics of the USCG's long and rich tradition of service to our Nation in harm's way.

Buildings and Structures - USCG does not acquire or retain heritage buildings and structures without an operational use. Most real property, even if designated as historical, is acquired for operational use and is transferred to other government agencies or public entities when no longer required for operations. Of the USCG buildings and structures designated as heritage, including memorials, recreational areas and other historical areas, over two-thirds are multi-use heritage. The remaining are historical lighthouses, which are no longer in use and awaiting disposal; their related assets; and a gravesite. CBP also has four multi-use heritage assets located in Puerto Rico. All multi-use heritage assets are reflected on the Consolidated Balance Sheet. Financial information for multi-use heritage assets is presented in the principal statements and notes. Deferred maintenance information for heritage assets and general PP&E is presented in the required supplementary information.

## Stewardship Investments

Stewardship investments are substantial investments made by the Federal Government for the benefit of the nation. When incurred, they are treated as expenses in calculating net cost, but they are separately reported as Required Supplementary Stewardship Information (RSSI) to highlight the extent of investments that are made for long-term benefit. Investments are not presented for fiscal year 2003 since amounts reported in the Department's Consolidated Statement of Net Cost is not presented on a comparative basis.

### Summary of Stewardship Investments (in millions)

Programs	Non-Federal Property	Human Capital	Research and Development
TSA- Airport Improvement Program	\$287	\$-	\$-
TSA - Port Security Grant Program	218	-	-
TSA - Intercity Bus Security Grant Program	18	-	-
TSA - Highway Watch Cooperative Agreement	-	8	-
TSA - Applied Research Projects	-	-	30
TSA - Operation Safe Commerce	-	-	50
EPR-National Fire Academy and Emergency Management Institute	-	25	-
SLGCP - First Responders Training Programs	-	23	-
USCG - R&D	-	-	19
<b>Total</b>	<b>\$523</b>	<b>\$56</b>	<b>\$99</b>

**See accompanying Independent Auditors' Report.  
Required Supplementary Stewardship Information**

## Investments in Non-federal Physical Property

These investments represent federally financed (but not federally owned) purchases, construction, or major renovation of physical property owned by state and local governments, including major additions, alterations and replacements, the purchase of major equipment; and the purchase or improvement of other physical assets. Based on a review of the Department's programs, TSA has made significant investments in Non-federal Physical Property.

### TSA

**Airport Improvement Program:** TSA purchases and installs in-line explosive detection systems (EDS) equipment through a variety of funding mechanisms, including Congressionally-authorized Letters of Intent (LOIs). LOIs provide partial reimbursement to airports for facility modifications required to install in-line EDS solutions. TSA has issued eight LOIs for nine airports to provide for the facility modifications necessary to accommodate in-line EDS screening solutions at these airports.

In-line systems also allow TSA to achieve maximum baggage throughput capacity. For example, a stand-alone EDS system can screen 180 bags per hour, while an in-line unit can screen 450 bags per hour. An added benefit is that installation of an in-line EDS system removes checked baggage screening operations from the airport lobby. However, in-line EDS systems are considerably more costly than stand-alone EDS. Many airports are not configured to accommodate installation of EDS technology in-line without extensive facility modifications. These funds are available only for physical modification of commercial service airports for the purpose of installing checked baggage explosive detection systems.

**Port Security Grant Program:** This program provides grants to critical national seaports to support efforts in port security through enhanced facility and operational security. These grants contribute to important security upgrades such as surveillance equipment, access controls to restricted areas, communications equipment and the construction of new command and control facilities.

**Intercity Bus Security Grant Program:** This program improves security for intercity bus operators and passengers. TSA will award grants based on the following program categories:

- Vehicle specific security enhancements, such as, but not limited to, protecting or isolating the driver, alarms, security mirrors, etc.;
- Monitoring, tracking and communication technologies for over-the-road buses;
- Implementation and operation of passenger and baggage screening programs at terminals and over-the road buses;
- Development of an effective security assessment/security plan that identifies critical security needs and vulnerabilities;
- Training for drivers, dispatchers, ticket agents and other personnel in recognizing and responding to criminal attacks and terrorist threats, evacuation procedures, passenger screening procedures and baggage inspection;
- Facility security enhancements (alteration/renovation – new vice replacement) to terminals, garages and facilities, including but not limited to: fencing, lighting, secured access, locking down of vehicles and other general securing of bus yards/depots.

**See accompanying Independent Auditors' Report.  
Required Supplementary Stewardship Information**

# Financial Information

## Investments in Human Capital

These investments include expenses incurred for programs for education and training of the public that are intended to increase or maintain national productive capacity and that produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity. Based on a review of the Department's programs, TSA and EPR have made significant investments in Human Capital.

### TSA

**Highway Watch Cooperative Agreement:** This cooperative agreement between the TSA and the American Trucking Associations (ATA) expands ATA's Highway Watch program, which trains highway professionals to identify and report safety and security situations on our Nation's roads. The program will provide training and communications infrastructure to prepare 400,000 transportation professionals to respond in the event they or their cargo are the target of a terrorist attack and to share valuable intelligence with TSA if they witness potential threats. The intelligence will allow Federal agencies and industry stakeholders to quickly move to prevent an attack or to immediately respond if an attack occurs.

### EPR

**National Fire Academy and Emergency Management Institute:** These investments represent costs of training and professional development provided by EPR's National Fire Academy and Emergency Management Institute. During fiscal year 2004, training was provided to over 67,000 emergency management "first responders" at the state and local fire and emergency response community and its allied professionals. EPR links its investments in Human Capital to two outcomes:

- **Percentage of respondents reporting that they are better prepared to deal with disasters and emergencies as a result of the training they received:** EPR's target in fiscal year 2004 was 78 percent and they achieved 76.4 percent. EPR's long-term goal in fiscal year 2010 is 90 percent.
- **Percentage of counties in the US and territories with established Community Emergency Response Team (CERT) teams:** EPR's target in fiscal year 2004 was 5 percent and they achieved 23.9 percent.

### SLGCP

**Training Programs:** In fiscal year 2004, SLGCP trained approximately 250,000 first responders to prevent and respond to acts of terrorism. Examples of training programs include:

- **The Center for Domestic Preparedness (CDP):** CDP provided training for State, local, tribal and parish emergency responders on all matters pertaining to terrorism to include Weapons of Mass Destruction.
- **The National Domestic Preparedness Consortium (NDPC):** NDPC is a partnership between SLGCP, three nationally recognized public universities and the U.S. Department of Energy. The NDPC works with SLGCP to identify training needs for all emergency response disciplines responsible for WMD terrorism prevention, deterrence and incident response.

**See accompanying Independent Auditors' Report.  
Required Supplementary Stewardship Information**

# Financial Information

- **Continuing and Emerging Training:** SLGCP, in conjunction with Federal, State and local training providers as well as emergency response practitioners, identified emerging training needs based on continuous task analysis and performance assessment, exercise after action reports and data reported in State and Urban Area homeland security strategies.

## Investments in Research and Development

These investments represent expenses incurred to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new or improved products and processes with the expectation of maintaining or increasing national productive capacity or yielding other future benefits. Based on a review of the Department's programs, TSA and the USCG have made significant investments in Research and Development.

### TSA

**Applied Research Projects:** TSA funds applied research projects and grants to develop advance security technology equipment and systems. Projects include partnerships with George Mason University, the Regional Maritime Security Coalition and the Federal Aviation Administration. These applied research projects include human factors research intended to enhance screener capabilities, improve person-machine performance and increase human system effectiveness; ongoing certification testing of EDS and explosive trace detection (ETD) technology; and infrastructure protection research related to use biometrics for access controls for passenger tracking.

**Operation Safe Commerce:** Operation Safe Commerce is a pilot program that brings together private business, ports, local, state and Federal representatives to analyze current security procedures for cargo entering the country. The ports of Seattle and Tacoma, Los Angeles and Long Beach, and the Port Authority of New York/New Jersey are participating in the pilot program. The program will function like a venture capital fund to utilize existing technology to monitor the movement and integrity of containers through the supply chain. Selected ports will test new technologies and initiatives in selected supply chains. The new technologies will look at improving security during the process of stuffing and deconsolidating containers, physically securing and monitoring containers as they are transported through the supply chain, and exchanging timely and reliable communication.

### USCG

The USCG's Research and Development Program seeks to research, develop, test and evaluate technologies, materials and human factors directly related to improving the performance of the Coast Guard's missions. During fiscal year 2004, the USCG collaborated with 35 external partners to demonstrate progress towards closing USCG mission performance gaps:

- **Maritime Safety:** Maritime Safety research supports the Coast Guard's efforts by enhancing capabilities toward eliminating deaths, injuries and property damage associated with maritime transportation, fishing and recreational boating.
- **Maritime Mobility:** This research supports the enhancement of capabilities required to perform the Aids to Navigation and Ice Operations missions.
- **Marine Environmental Protection:** This program focuses on elimination of the influx of aquatic nuisance species (ANS) and prevention and response strategies to major oil and hazardous substance discharges.

**See accompanying Independent Auditors' Report.  
Required Supplementary Stewardship Information**

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- **Homeland Security:** Homeland Security research supports enhancements in the enforcement of laws and treaties and security of the Nation's ports, waterways and coastal zone. The two major investment areas within this R&D program include detection, identification and classification of maritime threats and the improvement of interdiction capabilities.
- **Technology Investment:** Technology Investment research supports the Coast Guard's efforts towards the Department's Strategic Goal of Organizational Excellence. The primary purpose of this research is to increase performance capabilities and to free resources to perform other high priority functions. The two primary areas of focus within this program are Technology Awareness and Assessment and Command Center Concept Exploration.

**See accompanying Independent Auditors' Report.  
Required Supplementary Stewardship Information**

## Other Accompanying Information (unaudited)

### Net Costs of Department Sub-organizations by Strategic Goals (In Millions)

	Awareness	Prevention	Protection	Response	Recovery	Service	Organizational Excellence	TOTAL
<b>BTS Directorate:</b>								
BTS HQ	\$ -	\$ 9	\$ 1	\$ 1	\$ -	\$ -	\$ -	\$ 11
CBP	-	5,379	-	-	-	413	-	5,792
ICE	58	3,155	737	-	-	-	-	3,950
TSA	151	2,473	1,018	37	-	-	113	3,792
SLGCP	-	-	1,846	-	-	-	-	1,846
FLE	22	88	85	-	-	-	1	196
<b>Subtotal - BTS Directorate</b>	<b>231</b>	<b>11,104</b>	<b>3,687</b>	<b>38</b>	<b>-</b>	<b>413</b>	<b>114</b>	<b>15,587</b>
<b>EPR Directorate</b>	<b>-</b>	<b>-</b>	<b>1,592</b>	<b>1,125</b>	<b>3,271</b>	<b>-</b>	<b>-</b>	<b>5,988</b>
IAIP Directorate	140	-	357	-	-	-	-	497
S&T Directorate	66	439	126	100	24	-	-	755
USCG	560	4,840	1,564	975	113	108	-	8,160
USSS	-	-	1,368	-	-	-	-	1,368
CIS	-	99	-	-	-	349	-	448
<b>Departmental Operations/Other</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>325</b>	<b>325</b>
<b>TOTAL Department</b>	<b>\$ 997</b>	<b>\$ 16,482</b>	<b>\$ 8,694</b>	<b>\$ 2,238</b>	<b>\$ 3,408</b>	<b>\$ 870</b>	<b>\$ 439</b>	<b>\$ 33,128</b>

See accompanying Independent Auditors' Report.  
Other Accompanying Information





# Performance Information

Part III

## Introduction

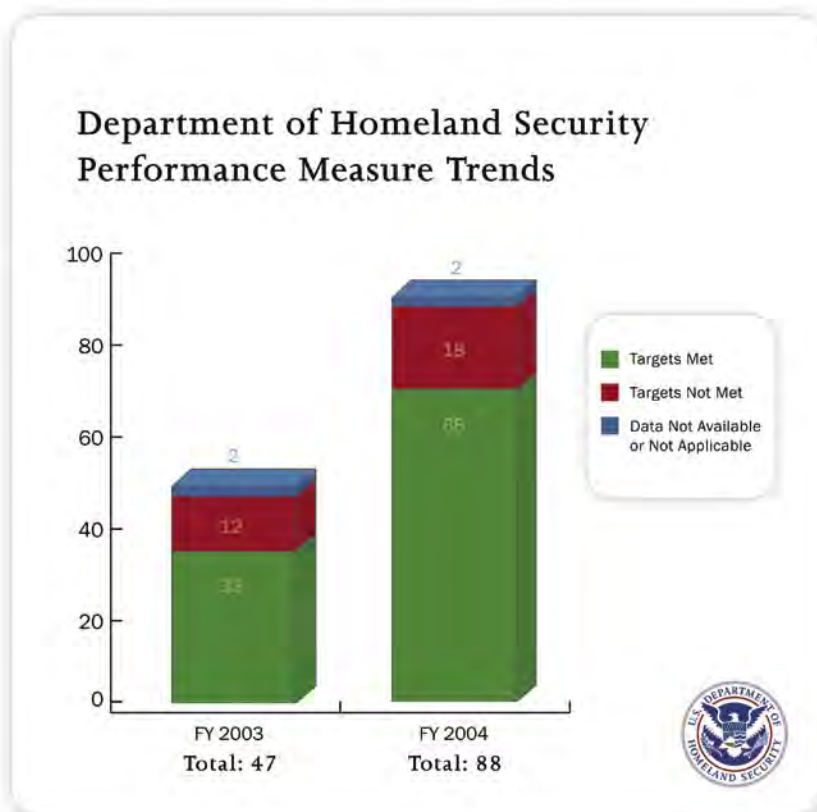
The mission of the Department of Homeland Security is to lead the unified national effort to secure America. We work to prevent and deter terrorist attacks, and protect against and respond to threats and hazards to the Nation. We ensure safe and secure borders, welcome lawful immigrants and visitors, and promote the free flow of legitimate passengers and commerce. Our seven strategic goals — Awareness, Prevention, Protection, Response, Recovery, Service and Organizational Excellence — guide the Department in fulfilling its mission. To track our progress we developed 88 specific program performance measures to assess results of our activities in achieving the goals. While the information provided in this report provides insight into our performance, it cannot within a single report present a complete view of the results achieved by the Department. However, during fiscal year 2005, we will continue to refine and establish measures and targets to reflect a wider spectrum of performance.

This section provides detailed descriptions of how the Department performed in support of our seven strategic goals during fiscal year 2004. During this period, we continued to evaluate hold-over performance measures inherited from the 22 agencies that formed the new Department. Based on these evaluations, we made adjustments to the hold-over measures, established 18 new baseline measures and aligned them with the goals and objectives outlined in the Department's Strategic Plan.

During fiscal year 2004, we met or exceeded 68, or 77 percent, of our performance targets. Of these, 11 were estimated to be met. Of the targets reported, 71 were specified targets and 17 were successfully establishing a fiscal year 2004 baseline for performance. We did not meet 18, or 20 percent, of the performance targets that were significant to program accomplishment. Where performance measures were not met, a detailed description and actions to resolve are provided in the tables that follow. For 2, or 3 percent, of the performance measures, actual results are not reported as one was for an interim measure that was enhanced during the year, and for the other the methodology was not finalized.

Each of the Department's seven strategic goals are supported by multiple objectives. Program performance goals and measures are presented by the departmental strategic goal with which they are most closely associated. As programs may support multiple objectives, each has been mapped to all associated objectives. The following tables summarize the Department's performance against our annual performance plan for fiscal year 2004. Each presents the responsible organizational element and program, the program performance goal, associated departmental objectives supported, performance measure, targets and actual performance, a description of the performance measure, an explanation of fiscal year 2004 results, and recommended actions, if appropriate.

# Performance Information



This section also addresses the completeness and reliability of performance measures data and summarizes key program evaluations conducted during fiscal year 2004. For performance measures where data are determined to be Inadequate or Materially Inadequate, we provided explanatory information and actions the Department will take to correct deficiencies.

This section presents two types of program evaluations: program evaluations conducted by the Office of Management and Budget (OMB) and evaluations conducted by the Department's Office of Inspector General (OIG) and the Government Accountability Office. During the fiscal year 2004 budget formulation period, OMB conducted nine Program Assessment Rating Tool reviews. One program was deemed Adequate in achieving results, one was rated Moderately Effective, and seven were found to have insufficient performance information to demonstrate the level of results. Subsequently, actions have been taken to be able to assess results. The OIG summarized the major management challenges the Department faces in the Inspector General's Report included in Part I, Management Discussion and Analysis. These challenges include:

- **Consolidating the Department's Components:** While notable progress has been made integrating the Department's many organizational elements into a single, efficient and effective department, structural and resource problems continue to inhibit progress in certain support functions.
- **Contract Management:** While efforts are underway to bring all the Department's procurements under one comprehensive reporting system, the Department lacks detailed and validated data to manage its procurement universe and ensure accurate and consistent reporting. In addition, several organizational elements have large, complex, high-cost procurement programs underway that need to be closely managed.
- **Grants Management:** The targeting of the Department's grant dollars to achieve national infrastructure protection priorities needs to improve, along with the integration of the grant management program with state and local resources

# Performance Information

based on risks that merit support. Concerns also exist regarding post-award administration oversight and measuring the success of achieving grant objectives.

- **Financial Management:** Although efforts have been made to address them, most material weaknesses and reportable conditions found in the prior fiscal year still exist. New challenges occurred during fiscal year 2004 in the financial accounting for U.S. Immigration and Customs Enforcement (ICE) and the U.S. Coast Guard (USCG), some of which may result in additional material weaknesses. Currently, internal controls are insufficient to ensure the accuracy of the Department's consolidated financial information.
- **Human Capital Management:** Extensive effort has been devoted to the development of the new Human Capital Management System. The proposed regulations have received thousands of comments and resulted in many meetings with employee labor union representatives. The Department continues to review and consider the issues raised in these forums, and once the review is complete, will move forward with the new system. In addition, problems still exist in the length of time necessary to complete security clearances, a situation faced by many government agencies.
- **Integration of Information Systems:** Creating a single infrastructure for effective communication and information exchange remains a major challenge. Currently, the Department's Chief Information Officer is not well-positioned with the strategic authority to manage department-wide technology assets and programs.
- **Security of Information Technology Infrastructure:** The Department still faces many challenges in addressing long-term cyber threats and vulnerabilities to the Nation's critical infrastructure. In terms of its own information technology systems, the Department has made significant progress in the department-level information security program. However, its organizational elements have not fully aligned their programs with overall Department policies and procedures. Improvements are also needed in security controls for the Department's wireless networks.
- **Infrastructure Threat Assessment:** The Department still faces many challenges in developing a consistent process to identify and compile the Nation's critical infrastructure and national assets into a comprehensive database.
- **Border Security:** The Department continues to face formidable challenges in securing the Nation's borders. Specifically, these challenges include the development of an effective automated entry-exit system for foreign visitors; disruption of alien smuggling operations; identifying, locating, detaining and removing illegal aliens; fielding effective border surveillance technologies, integrating fingerprint systems for identification purposes and providing intelligence information to support border security operations; developing effective overseas operations; and reducing the immigration benefit application backlog.
- **Transportation Security:** Improvements are still needed by the Transportation Security Administration (TSA) in airport screener training, equipment and technology, policy and procedures, and management and supervision, to ensure that dangerous prohibited items are not carried into restricted areas of the Nation's airports. In addition, while TSA has focused attention on addressing aviation security needs, it is moving slowly to improve security across the other modes of transportation, including buses, subways, ferries and light-rail services. Maritime security challenges include restoring the Coast Guard's readiness to perform its legacy missions; implementing the *Maritime Security Act of 2002*; maintaining and replacing the Coast Guard's deepwater fleet assets; and developing adequate infrastructure needed to support the Coast Guard's multiple missions.

The results explained in this report began with planning conducted in the Department's Planning, Programming, Budgeting and Execution System that serves as the basis for developing the Department's *Future Years Homeland Security Program*. In accordance with the provisions of the *Homeland Security Act of 2002*, the Department will submit the *Future Years Homeland Security Program* to Congress annually. The Planning, Programming, Budgeting and Execution System is a cyclic process that ensures requirements are properly identified, programs are aligned with the Department's mission and goals, and outcome-based performance measures are established to include factors that are key to the success of the Department. The Department's Strategic Plan; *Future Years Homeland Security Program*; and the Planning, Programming, Budgeting and Execution System together create a recurring cycle of program planning, budgeting, executing, measuring and reporting. This continuous cycle, along with our program assessment and evaluation process, ensures the Department performs at the level necessary to defend the Homeland and protect the American people while providing stewardship of taxpayer dollars.

## Completeness and Reliability

The Department recognizes the importance of collecting complete and accurate data that indicate performance, as this helps us determine our progress toward achieving our goals. To make well-informed decisions, we aggressively collect performance data that are reliable, accurate and consistent. The Department headquarters has reviewed this document for conformance to the standard of completeness and reliability as specified for federal agencies in *OMB Circular A-11, Preparation, Submission and Execution of the Budget, Section 230.2 (f)*. In the following tables, we identify:

### Completeness

Actual performance for every performance goal and measure in the fiscal year 2005 Performance Budget (performance plan), which included the final performance plan for fiscal year 2004, including preliminary data if that is the only data available, except as noted in this section on Completeness and Reliability. Because of the newness of some programs, some performance goals or measures were enhanced mid-year, as reflected in the Performance Measures tables. Where estimates have been provided, actual performance data will be provided in the fiscal year 2005 *Performance and Accountability Report*.

### Reliability

Department Program Managers are responsible for the reliability of performance measurement information for programs under their cognizance. Program Managers classify performance information as either: Reliable, Inadequate or To Be Determined. The following tables provide a summary of the performance data we classify as other than reliable, that is, Inadequate or To Be Determined.

With the exception of the performance data identified in the following tables, information contained within this report is reliable and complete in accordance with the standards contained in *OMB Circular A-11, Section 230.2(f)*.

# Performance Information

## Strategic Goal 1 – Awareness

Reported results are complete and reliable.

## Strategic Goal 2 – Prevention

<b>Reporting Organization</b>	<b>Transportation Security Administration (TSA)</b> Screener Workforce Program
<b>Performance Goal: Measure</b>	Ensure the safe, secure and efficient transport of passengers and property via air transportation: Passenger Screening Program Index that measures overall program performance through a composite of indicators.
<b>Explanation and Corrective Action</b>	Results are estimated due to the length of time to collect and compile results. Final actual results will be reported in the fiscal year 2005 <i>Performance and Accountability Report</i> and/or the Department's Performance Budget Overview released with the President's Budget for fiscal year 2006.

<b>Reporting Organization</b>	<b>Transportation Security Administration (TSA)</b> Screening Technology Program
<b>Performance Goal: Measure</b>	Develop and prepare for the deployment of technologically advanced systems to identify and eliminate illegally transported explosive devices, and chemical, biological, radiological, nuclear and other weapons: Baggage Screening Program Index that measures overall program performance through a composite of indicators.
<b>Explanation and Corrective Action</b>	The Baggage Screening Program Index was baselined in fiscal year 2004. To ensure this measure accurately reflects TSA performance, experts outside of TSA will use the 2004 baseline to gauge the measure's sensitivity and re-validate weights, calculations and data sources. Until the validation is complete, the fiscal year 2004 results will remain estimated.

<b>Reporting Organization</b>	<b>United States Coast Guard (USCG)</b> Drug Interdiction Program
<b>Performance Goal: Measure</b>	By 2009, the Coast Guard will reduce the flow of illegal drugs by removing 30 percent of drug flow from maritime sources: Removal rate for cocaine that is shipped via non-commercial maritime means.
<b>Explanation and Corrective Action</b>	Results are estimated due to the length of time to collect and compile results. Total non-commercial drug maritime flow will not be available until April 2005 when the Interagency Assessment of Cocaine Movement is published. Final actual results will be reported in the fiscal year 2005 <i>Performance and Accountability Report</i> .

<b>Reporting Organization</b>	<b>United States Coast Guard (USCG)</b> Marine Safety Program
<b>Performance Goal: Measure</b>	By 2009, the Coast Guard will reduce the five-year average number of passenger and maritime worker fatalities and injuries, and recreational boating fatalities to 1,339 or less: Maritime and Injury Fatality Index.
<b>Explanation and Corrective Action</b>	Results are estimated for recreational deaths, a component of the index. The States Boating Law Administrators will provide final data in July 2005. Final actual results will be reported in the fiscal year 2005 <i>Performance and Accountability Report</i> .

# Performance Information

<b>Reporting Organization</b>	<b>United States Coast Guard (USCG)</b> Ports, Waterways and Coastal Security Program
<b>Performance Goal: Measure</b>	By 2009, the Coast Guard will reduce homeland security risk in the maritime domain by obtaining Maritime Security Condition (MARSEC) level-1 85 percent of the time: (Interim) MARSEC level attainment percentage.
<b>Explanation and Corrective Action</b>	The proposed Coast Guard Ports, Waterways and Coastal Security (PWCS) performance measure is under development. Results are not available. The Coast Guard is anxious to demonstrate the measurable reduction in terror-related risk that will result from the continued build-out of its Ports, Waterways and Coastal Security mission-program. Pending final approval of its suggested measure, the Coast Guard will be one step closer to being able to effectively communicate the results of this program.

<b>Reporting Organization</b>	<b>U.S. Customs and Border Protection (CBP)</b> Border Security Inspections and Trade Facilitation at Ports of Entry Program
<b>Performance Goal: Measure</b>	Protect our homeland from acts of terrorism and reduce its vulnerability to the threat of international terrorists. Move legitimate cargo and people efficiently while safeguarding the border and the security of the United States: Counter Terrorism Qualitative Assessment.
<b>Explanation and Corrective Action</b>	Results not available - In conjunction with the Department, CBP will work to develop and implement a methodology to conduct the qualitative assessment.

<b>Reporting Organization</b>	<b>U.S. Immigration and Customs Enforcement (ICE)</b> Detention and Removal Program
<b>Performance Goal: Measure</b>	Remove 100 percent of removable aliens: Number of final order removals divided by the number of final orders issued.
<b>Explanation and Corrective Action</b>	Results are estimated due to the length of time to collect and compile results. Results will be reported in the fiscal year 2005 <i>Performance and Accountability Report</i> .

## Strategic Goal 3 – Protection

<b>Reporting Organization</b>	<b>Information Analysis and Infrastructure Protection (IAIP)</b> Remediation and Protective Actions Program and Outreach and Partnership Program
<b>Performance Goal: Measure</b>	Recommended protective actions implemented for 65 percent of first-tier priority critical infrastructure components or key assets: Percentage of recommended protective actions implemented (per fiscal year).
<b>Explanation and Corrective Action</b>	For fiscal year 2004, the percentage of first-tier infrastructure sites and facilities at which protective measures and consequence reduction strategies were implemented is estimated to be 30 percent. This figure was derived as follows: 1) The first-tier assets are those assets identified in fiscal year 2004 as having the most catastrophic consequence of attack. This includes the chemical and nuclear sites identified in fiscal year 2004 for a total of 388 sites. 2) The 122 sites that have had vulnerabilities identified and protective actions identified for them. This figure includes the number of Buffer Zone Protection Plans prepared for the first-tier assets, the number of site assistance visits conducted at chemical facilities and nuclear plants, and the web cam surveillance and warning pilots established at the most critical chemical sites. Additional protective measures were implemented across the Nation as a direct result of the training efforts IAIP has undertaken to increase local and private enforcement personnel awareness of threat indicators; however, those measures are difficult to track and are not included in this figure.

# Performance Information

<b>Reporting Organization</b>	<b>State and Local Government Coordination and Preparedness (SLGCP)</b> National Exercise Program
<b>Performance Goal: Measure</b>	By fiscal year 2009, under the Top Officials (TOPOFF) Series, state and local homeland security agencies will have had the opportunity to test the capacity of government agencies to prevent and/or respond to and recover from multiple large-scale attacks as demonstrated by successful achievement of exercise objectives that were met. By fiscal year 2009, under the state and local exercise grant program: 1) 50 percent of jurisdictions with populations of more than 500,000 will have exercised SLGCP's common suite of combating terrorism (CT) scenarios and will have demonstrated performance within the expected range for at least 70 percent of critical homeland security tasks; 2) 25 percent of jurisdictions with populations of more than 100,000 will have exercised SLGCP's common suite of CT scenarios and will have demonstrated performance within the expected range for at least 60 percent of critical homeland security tasks; 3) 10 percent of jurisdictions with populations of more than 500,000 will have exercised SLGCP's common suite of CT scenarios and will have demonstrated performance within the expected range for at least 50 percent of critical homeland security tasks; and 4) jurisdictions that participated in exercises will have implemented at least 50 percent of the actions specified in the Jurisdictional Improvement Plans developed to address recommendations from the After Action Report: Percentage of jurisdictions that demonstrate performance of at least 90 percent of critical tasks within the expected range in a cycle of exercises using the Department/SLGCP suite of scenarios.
<b>Explanation and Corrective Action</b>	Results are estimated. National Exercise Program scenarios and metrics are still under development pending results of a 2004 study. The Universal Task List is still in draft form pending the result of <i>Homeland Security Presidential Directive Number Eight</i> , which establishes policies to strengthen the preparedness of the United States to prevent and respond to threatened or actual domestic terrorist attacks, major disasters and other emergencies by requiring a national domestic all-hazards preparedness goal, establishing mechanisms for improved delivery of federal preparedness assistance to state and local governments, and outlining actions to strengthen preparedness capabilities of federal, state and local entities, and the Homeland Security Council scenarios.

<b>Reporting Organization</b>	<b>State and Local Government Coordination and Preparedness (SLGCP)</b> State Formula Grant Program
<b>Performance Goal: Measure</b>	By fiscal year 2009, under the State Formula Grant Program, state and local homeland security agencies have received resources and assistance and have implemented state strategies to enable them to perform critical tasks required to prevent or respond to a terrorist attack. Nationwide, overall response capability will be enhanced significantly and a new initiative to prevent/deter terrorist attacks domestically will be institutionalized for state and local law enforcement agencies: Percentage of jurisdictions of more than 500,000 people that demonstrate performance of at least 90 percent of critical tasks within the expected range in a cycle of exercises using the SLGCP suite of scenarios.
<b>Explanation and Corrective Action</b>	State Formula Grants Program scenarios and metrics are still under development pending results of a 2004 study. The Universal Task List is still in draft form pending the result of <i>Homeland Security Presidential Directive Number Eight</i> , which establishes policies to strengthen the preparedness of the United States to prevent and respond to threatened or actual domestic terrorist attacks, major disasters and other emergencies by requiring a national domestic all-hazards preparedness goal, establishing mechanisms for improved delivery of federal preparedness assistance to state and local governments, and outlining actions to strengthen preparedness capabilities of federal, state and local entities, and the Homeland Security Council scenarios.



# Performance Information

<b>Reporting Organization</b>	<b>State and Local Government Coordination and Preparedness (SLGCP)</b> State and Local Training Program
<b>Performance Goal: Measure</b>	By 2009, all state and local jurisdictions will have the capability to prevent, deter, respond to and recover from acts of terrorism. Refine SLGCP's capability to continuously identify and address emerging training needs. Expand cadre of subject matter experts: Percentage of jurisdictions with populations of more than 500,000 that demonstrate performance of at least 90 percent of critical tasks within the expected range in a cycle of exercises using the Department/SLGCP suite of scenarios.
<b>Explanation and Corrective Action</b>	The estimated results were attained by defining 187 critical tasks out of about a 1,500 universal list of first responder preparedness tasks that need to be performed in order to measure preparedness. The Department is in the process of defining capabilities to accomplish these tasks. Actual results will be available in fiscal year 2006.

<b>Reporting Organization</b>	<b>State and Local Government Coordination and Preparedness (SLGCP)</b> Urban Areas Security Initiative Program
<b>Performance Goal: Measure</b>	At least 90 percent of the participating urban areas will have demonstrated performance within the expected range for at least 90 percent of critical tasks: Percentage of the participating urban areas that demonstrated performance within at least 90 percent of critical tasks within the expected range.
<b>Explanation and Corrective Action</b>	Results are estimated. Urban Areas Security Initiative scenarios and metrics are still under development pending results of a 2004 study. The Universal Task List is still in draft form pending the result of <i>Homeland Security Presidential Directive Number Eight</i> , which establishes policies to strengthen the preparedness of the United States to prevent and respond to threatened or actual domestic terrorist attacks, major disasters and other emergencies by requiring a national domestic all-hazards preparedness goal, establishing mechanisms for improved delivery of federal preparedness assistance to state and local governments, and outlining actions to strengthen preparedness capabilities of federal, state and local entities, and the Homeland Security Council Scenarios.

<b>Reporting Organization</b>	<b>State and Local Government Coordination and Preparedness (SLGCP)</b> Evaluation Program
<b>Performance Goal: Measure</b>	By 2009, SLGCP will have implemented at least 75 percent of accepted program-related recommendations from program evaluations and state and local jurisdictions will have implemented at least 50 percent of accepted recommendations from evaluations of exercises: Percentage of jurisdictions with populations of more than 500,000 people that have successfully demonstrated preparedness through the use of the SLGCP common suite of combating terrorism scenarios.
<b>Explanation and Corrective Action</b>	Evaluation Program scenarios and metrics are still under development pending results of a 2004 study. The Universal Task List is still in draft form pending the result of <i>Homeland Security Presidential Directive Number Eight</i> , which establishes policies to strengthen the preparedness of the United States to prevent and respond to threatened or actual domestic terrorist attacks, major disasters and other emergencies by requiring a national domestic all-hazards preparedness goal, establishing mechanisms for improved delivery of federal preparedness assistance to state and local governments, and outlining actions to strengthen preparedness capabilities of federal, state and local entities, and the Homeland Security Council scenarios.

## Strategic Goal 4 – Response

Reported results are complete and reliable.

# Performance Information

## Strategic Goal 5 – Recovery

<b>Reporting Organization</b>	<b>Emergency Preparedness and Response (EP&amp;R)</b> Recovery Program
<b>Performance Goal: Measure</b>	By fiscal year 2009, provide recovery assistance at 100 percent of the fiscal year 2009 target level for performance in non-catastrophic disasters: Progress toward providing recovery assistance at the 2009 target level for performance in non-catastrophic disasters.
<b>Explanation and Corrective Action</b>	For performance measure element (C: Individual Recovery Assistance), completion of per unit cost baseline for individual assistance has been delayed into fiscal year 2005 due to hurricane activity in Florida and the Gulf Coast.

## Strategic Goal 6 – Service

Reported results are complete and reliable.

## Strategic Goal 7 – Organizational Excellence

Reported results are complete and reliable.

## Strategic Goal 1 – Awareness

The focus of this strategic goal is to identify and understand threats, assess vulnerabilities, determine potential impacts and disseminate timely information to our homeland security partners and the American public. The objectives established by the Department to achieve this goal are provided below.

**Objective 1.1** Gather and fuse all terrorism-related intelligence; analyze and coordinate access to information related to potential terrorists or other threats.

Intelligence and information analysis is an integral component of the Nation's overall efforts to protect against and reduce our vulnerability to terrorism. We receive, assess and analyze information from law enforcement, the intelligence community and non-traditional sources (e.g., state and local governments, private sector) to increase situational awareness of terrorist threats and specific incidents. We review and, as necessary, work to improve policies for law enforcement and intelligence information sharing within the Federal Government and between state and local authorities. Data collection and analysis capabilities are supported through investment in, and development of, leading-edge information analysis; data mining; data warehousing and threat/vulnerability mapping applications and tools; and recruiting, training and retaining human analysts.

**Objective 1.2** Identify and assess the vulnerability of critical infrastructure and key assets.

We conduct and sustain a complete, current and accurate assessment of the Nation's infrastructure sectors and assets. We use modeling, simulation and risk-based analytic tools to prioritize our work with an emphasis on critical infrastructure and key resources that could be catastrophically exploited. By establishing this understanding of the full array of critical infrastructure facilities and assets, how they interact and the interdependencies across infrastructure sectors, we are in a position to anticipate the national security, economic and public safety implications of terrorist attacks and will prioritize protective measures accordingly.

**Objective 1.3** Develop timely, actionable and valuable information based on intelligence analysis and vulnerability assessments.

We integrate intelligence, threat and infrastructure vulnerability information to provide our national leaders, decision makers and the owners and operators of our critical infrastructure and key assets with the increasingly targeted and actionable information necessary in the post September 11<sup>th</sup> threat environment. We build an intelligence analysis structure that coordinates with the rest of the Federal Government; as well as state, local and tribal governments, the private sector and our international partners. Our national imperative is to improve the sharing, analysis and integration of all-source threat, risk and infrastructure vulnerability information so appropriate preventative and protective actions can be taken.

**Objective 1.4** Ensure quick and accurate dissemination of relevant intelligence information to homeland security partners, including the public.

Securing the Homeland is a joint effort of the Federal Government; state, local and tribal governments; the private sector; our international partners; and the public. Therefore, we work to empower those partners by disseminating relevant intelligence and threat information to them accurately and as quickly as possible. We work with our partners to remove roadblocks to information sharing. We administer the Homeland Security Advisory System, including the issuance of public advisories and coordination of warning information with other agencies. We deploy and operate tools and secure communications channels to analyze and disseminate information to relevant agencies as quickly and efficiently as possible.

Detailed information concerning actual performance during fiscal year 2004 to achieve this goal is provided below.

# Performance Information

Intelligence Analysis and Infrastructure Protection (IAIP) – Competitive Analysis and Evaluation/Studies Program				
<b>Performance Goal:</b>				
Products are of a high quality and reflect the broadest possible view of threats capabilities and vulnerabilities.				
<b>Objectives Supporting:</b> 1.1 and 1.2				
<b>Performance Measure:</b>				
Overall customer satisfaction rate for products.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	Product subscriptions at system capacity: 40,000 HSIN-CI Members	Met
<b>Description:</b> The Homeland Security Information Network (HSIN) will be expanded to include critical infrastructure (CI) owners and operators and the private sector. The HSIN-CI is an unclassified network, which immediately provides the Department's Homeland Security Operations Center with one-stop 24/7 access to a broad spectrum of industries, agencies and critical infrastructure across both the public and private sectors. This conduit for two-way information sharing provides the Department with an expanding base of locally knowledgeable experts and delivers real-time access to needed information.				
<b>Explanation of Fiscal Year 2004 Results:</b> The fiscal year 2004 measure of IAIP customer satisfaction will be measured according to how many members signed up for the Homeland Security Information Network – Critical Infrastructure. In fiscal year 2004, 40,000 members signed up. This has all the technical capacity allowed. Capacity will be expanded in fiscal years 2005 and 2006.				

Intelligence Analysis and Infrastructure Protection (IAIP) – Homeland Security Operations Center (HSOC) Program				
<b>Performance Goal:</b>				
Establish a fully capable Command, Control, Operations and Information Exchange System.				
<b>Objectives Supporting:</b> 1.1, 1.3, 1.4, 2.4, 3.1, 4.1, 5.1 and 5.2				
<b>Performance Measure:</b>				
Percentage of increase in time efficiency of issuance of information and warning advisories.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	100%	Met
<b>Description:</b> HSOC supports timely information and warning advisories by publishing the Homeland Security Operations Morning Brief (HSOMB) daily. The Homeland Security Information Network (HSIN) and HSOC watch are structured to disseminate advisories on demand when significant information becomes available within the daily publishing cycle.				
<b>Explanation of Fiscal Year 2004 Results:</b> During fiscal year 2004, HSOC established a daily review cycle of all known threat information. With coordination from Information Analysis (IA) and Infrastructure Protection (IP), HSOC publishes a sensitive but unclassified report daily on these threats. This report, the HSOMB, is distributed via the HSIN to federal, state, local, territorial and private-sector organizations daily to provide information and warning advisories. When emerging threat information is received during the day, it is immediately vetted and disseminated to all parties via HSIN.				

# Performance Information

Intelligence Analysis and Infrastructure Protection (IAIP) – Information and Warning Advisories (IWA) Program				
<b>Performance Goal:</b>				
Increase time efficiency of issuance of information and warnings advisories by 50 percent.				
<b>Objectives Supporting:</b> 1.1				
<b>Performance Measure:</b>				
Time efficiency of information and warning advisories.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	100%	Met
<b>Description:</b> IWA supports timely information and warning advisories by publishing the Homeland Security Operations Morning Brief (HSOMB) daily. The Homeland Security Information Network (HSIN) and HSOC watch are structured to disseminate advisories on demand when significant information becomes available within the daily publishing cycle.				
<b>Explanation of Fiscal Year 2004 Results:</b> During fiscal year 2004, HSOC established a daily review cycle of all known threat information. With coordination from IAIP, HSOC publishes a sensitive but unclassified report daily on these threats. This report, the HSOMB, is distributed via the HSIN to federal, state, local, territorial and private-sector organizations daily to provide information and warning advisories. When emerging threat information is received during the day, it is immediately vetted and disseminated to all parties via HSIN.				

Intelligence Analysis and Infrastructure Protection (IAIP) – Infrastructure Vulnerability and Risk Assessment (IVRA) Program				
<b>Performance Goal:</b>				
Reduce “general” warnings, as compared to “at-risk” warnings by 60 percent from 2003 levels.				
<b>Objectives Supporting:</b> 1.1 and 1.4				
<b>Performance Measure:</b>				
Reduction of general warnings, as compared to at-risk warnings.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	3 General Warnings, 0 At-Risk Warnings	≥ 50% of Warnings are at Risk Compared to General Warnings	1 General Warning, 1 At-Risk warning	Met
<b>Description:</b> The Homeland Security Advisory System (HSAS) was established in March 2002 and was designed to disseminate information regarding the risk of terrorist acts to federal, state and local government agencies and the public. The HSAS is comprised of five color-coded threat conditions that represent levels of risk related to potential terror attack. As defined in the <i>Homeland Security Presidential Directive Three</i> , risk includes both the probability of an attack occurring and the potential gravity. In fiscal year 2003, there were three national threat level increases to Orange (High) from Yellow (Elevated) that occurred between February 7 and February 27, 2003; March 17 and April 16, 2003; and May 20 and May 30, 2003. Raising the threat condition has economic, physical and psychological effects on the Nation; so, the HSAS can also place specific geographic regions or industry sectors on a higher alert status than other regions or industries, based on specific threat information. The economic and psychological effects associated with increased vigilance by federal, state and local governments are outlined in the Government Accountability Office report GAO-04-682, <i>Homeland Security Communication Protocols and Risk Communication Principles can Assist in Refining the Advisory System</i> .				
<b>Explanation of Fiscal Year 2004 Results:</b> On August 1, 2004, HSAS increased the threat level to Orange (High) for the financial services sector in New York City, northern New Jersey and Washington, D.C. The rest of the Nation remained at Yellow (Elevated) for the 2004 fiscal year. A national threat level increase to Orange from Yellow took place from December 21, 2003, to January 9, 2004.				

# Performance Information

<b>Intelligence Analysis and Infrastructure Protection (IAIP) – Threat Determination and Assessment (TDA) Program</b>				
<b>Performance Goal:</b>				
Threat-level information on first-tier key assets and critical infrastructure components is available to decision-makers for optimal deployment of assets.				
<b>Objectives Supporting:</b> 1.2				
<b>Performance Measure:</b>				
Percentage of first-tier key assets and critical infrastructure components that have threat-level information completed for use by decision-makers for deployment of assets.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	Urban Areas > 100,000 People (100%)	Met
<b>Description:</b> Threat-level reports will be completed by the Information Analysis Office for critical infrastructure components and key assets across the Nation.				
<b>Explanation of Fiscal Year 2004 Results:</b> In fiscal year 2004, mapping of threats to vulnerabilities for critical infrastructure was completed for urban areas with populations of more than 100,000 people.				

# Performance Information

## Transportation Security Administration (TSA) – Transportation Security Enterprise Program

### Performance Goal:

Fully deploy a comprehensive threat-based security management system for use in all modes of transportation, and ensure zero successful attacks against the transportation system as a result of the mishandling or misinterpretation of intelligence information received by the TSA Intelligence Service.

**Objectives Supporting:** 1.1, 1.2, 2.5, 3.7 and 4.1

### Performance Measure:

Number of successful attacks resulting from mishandling or misinterpretation of intelligence information received by TSA intelligence service.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
Target/Actual Indicator:	N/A	0	0	Met

**Description:** The 9/11 Commission concluded that better interpretation, handling and coordination of intelligence throughout the Federal Government and transportation community may have prevented the tragic attacks of September 11<sup>th</sup>. TSA's target for this goal is that there will be no hostile attacks that cause harm to the traveling public or transportation industry. It does not include minor, often unpreventable, incidents such as disruptions caused by drunken, unruly passengers. Data for this measure are from reports of security incidents housed in the TSA Performance and Results Information System (PARIS).

**Explanation of Fiscal Year 2004 Results:** There were no successful attacks to the domestic transportation system recorded in PARIS. One of TSA's most important strategic goals is the expansion of domain awareness throughout the transportation sector using timely threat analysis and information sharing to enhance industry's prevention and response to hostile attacks. TSA senior leaders conduct daily comprehensive intelligence reviews and hold weekly intermodal stakeholder teleconferences to share unclassified intelligence and information on TSA security programs. Specific successes that also supported this goal include:

- Dramatically expanding and refining the "no-fly" list as intelligence and law enforcement agencies submit new names for consideration;
- Vetting 78,847 aviation workers employed at airports in the Boston and New York areas in the vicinity of the Democratic and Republican national conventions. These workers were screened against criminal history and terrorist-based databases to identify potential security threats;
- Vetting approximately 2.7 million truck drivers credentialed to transport hazardous materials against intelligence and immigration databases to identify potential security threats;
- Establishing the Transportation Security Operations Center for rapid and agile analysis and response to intelligence and incident information; and
- Instituting a weekly Threat in the Spotlight training program, supported by the Federal Air Marshal Service Explosives Division, to provide the screener workforce with information on threat objects and tactics based on intelligence information, confiscated items discovered at airports or provided by state and local law enforcement entities.

## Strategic Goal 2 – Prevention

The focus of this strategic goal is to detect, deter and mitigate threats to our homeland. The objectives established by the Department to achieve this goal are provided below.

**Objective 2.1** Secure our borders against terrorists, means of terrorism, illegal drugs and other illegal activity.

We interdict terrorist activities by targeting unlawful migration of people, cargo, drugs and other contraband, while facilitating legitimate migration and commerce. The Department enforces border security in an integrated fashion at ports of entry, on the borders, on the seas and before potential threats can reach our borders. Through the continued deployment of the appropriate balance of personnel, equipment and technology we create “smart borders.” Not only do we create more secure U.S. borders but, in conjunction with international partners, we extend our zones of security beyond our physical borders identifying, prioritizing and interdicting threats to the Nation before they arrive. We develop and provide resources for a cohesive, unified enforcement capability that makes our border security effective, smarter and stronger.

**Objective 2.2** Enforce trade and immigration laws.

We enforce all applicable laws in an integrated fashion while facilitating free commerce and the flow of legal immigration and travel into the United States. We interdict smuggling and stop other illegal activities that benefit terrorists and their supporters. We build a unified, cohesive enforcement capability to actively conduct and coordinate law enforcement operations.

**Objective 2.3** Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.

The Nation’s technical superiority in science and technology is key to securing the Homeland. We use, leverage and enhance the vast resources and expertise of the Federal Government, private sector, academic community, non-governmental organizations and other scientific bodies. We develop new capabilities to facilitate the sharing of information and analysis; test and assess threats and vulnerabilities; counter various threats, including weapons of mass destruction and illegal drugs; and mitigate the effects of terrorist attacks. We also focus our efforts on developing technology to detect and prevent the illicit transport of chemical, biological, radiological and nuclear materials. We develop and deploy the capabilities, equipment and systems needed to anticipate, respond to and recover from attacks on the Homeland.

**Objective 2.4** Ensure national and international policy, law enforcement and other actions to prepare for and prevent terrorism are coordinated.

We effectively coordinate and communicate with other federal agencies; state, local and tribal governments; the private sector; and the American people. Increasing and coordinating information sharing between law enforcement, intelligence and military organizations improves our ability to counter terrorists everywhere. We coordinate training and education across multiple levels, both national and international, ensuring common standards and approaches to recognizing key indicators of future terrorist actions.

**Objective 2.5** Strengthen the security of the Nation’s transportation systems.

Transportation systems have the unique ability to be either a means of delivering weapons of terror or the target of a direct terrorist attack. Our domestic transportation system is intertwined inextricably with the global transportation infrastructure. Safety and security are two sides of the same coin. We strengthen the security of the transportation network while we work to remove all threats or barriers to the safe movement of commerce and people. We coordinate with federal, state, local and tribal agencies, as well as our international and private-sector partners, to ensure the transportation system remains a safe and vital economic link, while preventing terrorists from using transportation conveyances or systems to deliver implements of destruction.



# Performance Information

**Objective 2.6** Ensure the security and integrity of the immigration system.

We ensure that immigrants and non-immigrants comply with laws and security mandates to prevent people who seek to exploit the economic and social benefits of immigration or engage in illegal activities from obtaining lawful status. We strengthen legal protections and design programs appropriately to create a more secure immigration system. We make decisions in a timely and efficient manner by applying technology and allocating our resources to provide actionable and accurate information. We ensure that those entitled to benefits receive them through verification services and encourage employers to verify status. We refer illegal aliens to enforcement entities for prosecution or removal from the United States.

Detailed information concerning actual performance during fiscal year 2004 to achieve this goal is provided below.

# Performance Information

Federal Law Enforcement Training Center (FLETC) – Construction and Improvement Program				
<b>Performance Goal:</b>				
Ensure FLETC has the facility capacity to meet its law enforcement training requirements.				
<b>Objectives Supporting:</b> 1.1, 1.2, 1.4, 2.1, 2.2, 2.4, 2.5, 2.6, 3.1, 3.3, 3.4, 3.6 and 3.7				
<b>Performance Measure:</b>				
Percentage of requested training programs conducted.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	98.5%	Met
<p><b>Description:</b> This performance measure is an indicator of the percentage of training programs requested by partner organizations that are successfully scheduled by FLETC. This measure compares the number of programs conducted during the fiscal year with the numbers requested in the April submission. This measure enables FLETC to maintain sufficient capacity to meet the training requirements for present and projected future FLETC training requirements. These data are captured as part of the Student Information System. Partner organizations submit their requests for training in April for the following fiscal year. From that point forward (nearly to the end of the fiscal year in question), the requests are continually refined.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> We have contingency plans that identify and reduce the limiting effects of training constraints: facilities, full-time employees, equipment, technology, etc.</p>				

Federal Law Enforcement Training Center (FLETC) – Federal Law Enforcement Training Program				
<b>Performance Goal:</b>				
Deploy federal law enforcement agents and officers with the knowledge and skills to effectively enforce laws and regulations, protect the Nation and interact with the public in ways that demonstrate respect for individuals and civil liberties.				
<b>Objectives Supporting:</b> 1.1, 1.2, 1.4, 2.1, 2.2, 2.4, 2.5, 2.6, 3.1, 3.3, 3.4, 3.6 and 3.7				
<b>Performance Measure:</b>				
Percentage of federal supervisors who rate their FLETC basic training graduate's preparedness as good or excellent.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	73.4%	Met
<p><b>Description:</b> This performance measure indicates the percentage of federal supervisors of FLETC basic training graduates who, after eight to 12 months of observation, indicate their law enforcement officers or agents are highly prepared to perform their entry-level duties and responsibilities. The Department obtains performance data for this measure through formalized surveys of federal supervisors to evaluate each of their FLETC basic training graduate's preparedness to perform the duties and responsibilities as law enforcement officers or agents. Federal supervisors rate their students using a scale of Excellent, Good, Satisfactory, Marginal or Unsatisfactory. Determined through extensive testing and practical exercise examinations, FLETC ensures 100 percent of basic training graduates are adequately prepared to perform their new duties.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> We collaborate with our partner organizations to assess, validate and improve each program as they are constantly evolving and being refined in response to emerging issues such as changes in the laws, mission emphasis and partner organization requirements. All training is continually evaluated via FLETC's state-of-the-art automated testing and evaluations systems. Formal summary evaluations are conducted during Curriculum Review Conferences and Curriculum Development Conferences.</p>				

# Performance Information

Federal Law Enforcement Training Center (FLETC) – State and Local Law Enforcement Training Program				
<b>Performance Goal:</b>				
Deployment of state and local agents and officers with the knowledge and skills to effectively enforce laws and regulations, protect local communities, and interact with the public in ways that demonstrate respect for individuals and civil liberties.				
<b>Objectives Supporting:</b> 1.1, 1.2, 1.4, 2.3, 2.4, 3.3, 3.5, 3.6 and 3.7				
<b>Performance Measure:</b>				
Percentage of students who express excellent or outstanding on the Student Quality of Training Survey (SQTS).				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	64.1%	Met
<p><b>Description:</b> This performance measure is an indicator of the degree of training quality received based on the student's feedback. The SQTS is a formal means to identify opportunities for immediate improvements and updates to ensure that the student receives the right skills and knowledge, presented in the right way and right time. The SQTS is used to determine the level of student satisfaction for this measure. Students respond to a modified 5-point Likert scale (Outstanding, Excellent, Good, Satisfactory and Poor). The ratings of outstanding and excellent are combined to form the measure of excellence to which the Center aspires.</p> <p><b>Explanation of Fiscal Year 2004 Results:</b> FLETC is committed to providing the best training possible to all law enforcement organizations that we serve by establishing and maintaining a robust process to examine law enforcement trends and emerging issues. We collaborate with our partner organizations to assess, validate and improve each program as they are constantly evolving and being refined in response to emerging issues such as changes in the laws, mission emphasis and partner organization requirements.</p>				

Transportation Security Administration (TSA) – Screener Workforce Program				
<b>Performance Goal:</b>				
Ensure the safe, secure and efficient transport of passengers and property via air transportation.				
<b>Objectives Supporting:</b> 2.5				
<b>Performance Measure:</b>				
Passenger Screening Program Index that measures overall program performance through a composite of indicators.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	<i>Estimated - 3.3</i>	<i>Estimated - Met</i>
<p><b>Description:</b> This composite performance index is a combination of scores that are designed to tell the public, without revealing sensitive security information, how well TSA is doing screening people at airport security checkpoints in the areas of effectiveness, cost management and customer satisfaction. Each area is weighted according to its relative importance in the overall program. Fifty percent of the index score is for program effectiveness, which is measured by the probability of detection of contraband, either in possession of the person screened or in a carry-on bag, as determined through covert testing by TSA agents and automated Threat Image Projection (TIP) testing. The cost component is 25 percent of the index score and is determined using the average cost per person screened as determined through an activity-based costing model. The final 25 percent of the index score is for customer satisfaction and is created from data obtained from customer feedback cards distributed to passengers following their screening, along with responses to telephone surveys, and compliments and complaints received at airports and the TSA call center. Data supporting the index are collected from commercial airports across the country and housed on TSA's Performance Measurement Information System (PMIS). The index score is a relative number on a scale of 1-5, with 5 being the highest possible score.</p>				

# Performance Information

**Explanation of Fiscal Year 2004 Results:** The Passenger Screening Program Index was baselined in fiscal year 2004. It indicates good performance overall, but with room for improvement. To ensure this measure accurately reflects TSA performance, experts outside of TSA will use the 2004 baseline to gauge the measure's sensitivity and re-validate weights, calculations and data sources. Until the validation is complete, the fiscal year 2004 results will remain estimated. In support of this goal, TSA is constantly striving to improve its performance in keeping dangerous items off commercial aircraft. TSA screeners intercepted more than 6.1 million prohibited items at checkpoints in calendar year 2003, and fiscal year 2004 saw changes in training, hiring and re-certifying screeners that led to better screener performance and professionalism. The deployment of advanced technology at checkpoints and improved inspection procedures contribute to more effective and efficient screening.

- Every passenger seeking to enter the sterile area of a U.S. airport is screened by TSA screeners in accordance with the Screening Checkpoint Standard Operating Procedure revised and reissued in February 2004.
- Screeners must demonstrate the qualifications, knowledge, skills and aptitudes necessary to meet national, validated skill standards for all screeners that form the foundation for an integrated system for hiring, training, certifying and measuring performance. TSA conducted annual recertification for screeners between October 2003 and March 2004. Less than 1 percent of screeners failed to re-certify. Those who failed were removed from the federal screening workforce.
- In October 2003, TSA developed a screening performance improvement plan to address passenger screener performance deficiencies identified in a July 2003 study. This plan included nine broad initiatives and 62 specific actions. TSA established an aggressive timeline to complete these actions. By June 2004, TSA had completed 58 actions. TSA management also deploys Mobile Training Assist Teams to assist airport Federal Security Directors in identifying and resolving short-term issues affecting screener performance.
- In January 2004, TSA distributed inoperable weapons and modular bomb set inert training kits to every airport, along with protocols and guidance to allow Federal Security Directors to conduct Screener Training Exercises and Assessments (STEA) for local covert operational testing of checkpoint screening operations. These kits allow screeners to become directly familiar with the components of improvised explosive devices and allow them to practice detecting them in X-ray images, both completely assembled and in partial configurations. The inoperable weapons allow screeners to practice detecting partially or completely disassembled handguns and a variety of other weapons.
- TSA launched the Aviation Partnership Support Plan campaign to streamline the security checkpoint process by improving public awareness and incorporating best practices designed to increase screening throughput while maintaining security. These combined efforts between TSA and industry minimized the impact of increased summer travel despite increased capacity and reduced maximum peak wait times by more than 12 percent for the top 40 airports.
- In June, TSA announced the Registered Traveler pilot program at five airports: Minneapolis-St. Paul International, Boston Logan, Los Angeles International Airport, George Bush International in Houston and Washington National Airport. Volunteers provide TSA information including their name, address, phone number and date of birth along with a biometric imprint including finger and iris scan. TSA will perform a security assessment of each volunteer, which includes analysis of law enforcement and intelligence data sources and a check of outstanding criminal warrants. Accepted enrollees undergo an expedited screening process at their respective airports. The pilot program has been approved to be extended in fiscal year 2005.

# Performance Information

Transportation Security Administration (TSA) – Screening Technology Program				
<b>Performance Goal:</b>				
Develop and prepare for the deployment of technologically advanced systems to identify and eliminate illegally transported explosive devices, and chemical, biological, radiological, nuclear and other weapons.				
<b>Objectives Supporting:</b> 2.3				
<b>Performance Measure:</b>				
Baggage Screening Program Index that measures overall program performance through a composite of indicators.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	<i>Estimated - 3.2</i>	<i>Estimated – Met</i>
<p><b>Description:</b> A large portion of the American taxpayers' investment in aviation security technology goes toward the development, deployment and effective professional use of advanced equipment to screen checked baggage. This performance measurement index is a combination of scores that are designed to tell the public how well TSA is doing screening checked baggage at airports in the areas of effectiveness, cost management and customer satisfaction. At the same time, it avoids revealing sensitive security information. Each area is weighted according to its relative importance in the overall program. Fifty percent of the index score is for program effectiveness, which is measured by the probability of detection of contraband in a checked bag, as determined through laboratory machine performance, covert testing by TSA agents and automated Threat Image Projection (TIP) testing. The cost component is 25 percent of the index score and is determined using the average cost-per-bag screened as determined through an activity-based costing model. The final 25 percent of the index score is for customer satisfaction and is created from data obtained from customer feedback cards distributed to passengers following their screening, along with responses to telephone surveys, and compliments and complaints received at airports and the TSA call center. Data supporting the index are collected from commercial airports across the country and housed on TSA's Performance Measurement Information System. The index is a relative number on a scale of 1–5, with 5 being the highest possible score.</p>				

# Performance Information

**Explanation of Fiscal Year 2004 Results:** The Baggage Screening Program Index was baselined in fiscal year 2004. To ensure this measure accurately reflects TSA performance, experts outside TSA will use the 2004 baseline to gauge the measure's sensitivity and re-validate weights, calculations and data sources. Until the validation is complete, the fiscal year 2004 results will remain estimated. The baseline index indicates an overall positive performance, but with a need to continue progress toward more effective and efficient checked baggage screening. Successes that supported this performance goal in fiscal year 2004 include:

- TSA implemented 100 percent electronic checked baggage screening at America's airports.
- TSA issued two letters of intent, totaling more than \$185 million to Phoenix-Sky Harbor International Airport and Atlanta Hartsfield International Airport to provide funding for facility modifications necessary to establish an in-line checked baggage screening solution using certified explosives detection systems (EDS).
- Six different research and development programs were underway in fiscal year 2004 that will result in improved EDS. Some equipment will be best suited for smaller airports or even checkpoints, while other equipment is being designed for baggage handling system in-line deployment. Any improvements in design and realization of savings will be generated by decreasing false alarm rates, increasing throughput and reducing the size of EDS equipment so it will occupy less space in already overcrowded airports.
- In April 2004, TSA implemented the Dual Functioning Screener Training Program to support the airports' need for flexibility in staffing the checkpoint and baggage positions. New hire screeners are trained in both checkpoint and baggage screening procedures and are required to complete on-the-job training in order to be certified. TSA has begun on-screen alarm resolution protocol training for EDS operators to enhance both effectiveness and efficiency.
- TSA's Transportation Security Laboratory (TSL) is looking at new applications of X-ray, electromagnetic and nuclear technologies to better probe sealed containers for materials that pose a threat.
- TSA launched operational test and evaluation pilot projects at nine airports using explosives trace detection portals and explosives trace detection document scanners for passenger screening at checkpoints.
- TSA initiated 10 airport access control pilot projects to operationally test and evaluate state-of-the-art access control technologies, with a focus on use of biometrics.
- TSA issued 18 grants to airports, totaling approximately \$17 million, to operationally test and evaluate a variety of technologies that will improve airport terminal security.
- In May 2004, TSA launched the Transit and Rail Inspection Pilot Program to determine the feasibility of screening passengers, luggage and carry-on bags for explosives in the rail environment. Phase I of the pilot was conducted at the New Carrollton, Maryland, station, which serves multiple types of rail operations. Phase II was launched in June 2004 for explosives screening of checked baggage and parcels at Union Station in Washington, D.C. Phase III was launched in July 2004 for explosives screening of passengers and carry-on baggage inside a mobile train car fitted with security technologies.
- The Department's Toxic by Inhalation working group, made up of personnel from the Department (TSA, IAIP) and the Department of Transportation (Federal Railroad Administration, Research and Special Programs Administration), has completed a comprehensive security review of the Washington, D.C., rail corridor and has proposed mitigation strategies that include operational elements, inspection and technology.

# Performance Information

Transportation Security Administration (TSA) – Screener Support Program				
<b>Performance Goal:</b>				
Operate as a performance-based organization for improved effectiveness and efficiency.				
<b>Objectives Supporting:</b> 2.5 and 7.3				
<b>Performance Measure:</b>				
Use internal Department of Homeland Security ratings to measure success in the following areas: Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanded Electronic Government and Budget and Performance Integration.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	2.3	Met
<p><b>Description:</b> Each quarter, the Department issues ratings to TSA based on its internal criteria for the management areas of Human Capital, Competitive Sourcing, Financial Performance, Electronic Government and Budget and Performance Integration. TSA translates the rating into a numerical score of 1–3, with 3 being the highest for all criteria. This numerical scoring provides sensitivity to enable TSA and the public to see in one score the general trend and success TSA is having in advancing its efficiency and effectiveness.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> TSA met its goal for progress in implementing advances in efficiency and effectiveness. Activities supporting this performance goal included:</p> <ul style="list-style-type: none"> <li>• Completing a <i>Human Capital Strategic Plan</i>;</li> <li>• Using an updated Functional Breakdown Statement to support organizational streamlining and restructuring;</li> <li>• Allowing airports to apply to use private screeners in lieu of federal TSA screeners. As mandated by the <i>Aviation and Transportation Security Act of 2001</i>, federal screening is an “inherently governmental” activity not subject to outsourcing requirements; however, a pilot program of private screening has resulted in the new Screener Partnership Program;</li> <li>• Modernizing financial information systems and procedures with an emphasis on cost accounting;</li> <li>• Establishing the Information Technology Management Council reporting to the Investment Review Board to prioritize information technology investments;</li> <li>• Developing a suite of TSA performance measures to be used for multiple audiences and information systems to support them; and</li> <li>• Completing OMB’s Program Assessment Rating Tool assessments for the screening workforce, technology and training programs.</li> </ul>				

Transportation Security Administration (TSA) – Air Cargo Program				
<b>Performance Goal:</b>				
TSA will develop technologically advanced systems for screening air cargo to ensure the safe and secure transport of passengers and property via air transportation.				
<b>Objectives Supporting:</b> 2.5				
<b>Performance Measure:</b>				
Percent of known shipper cargo inspected on passenger aircraft.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Classified	Classified	Met

# Performance Information

**Description:** This is a classified proxy measure of an element of the cargo performance goal until a more comprehensive measure can be developed. It focuses on the aviation industry's compliance with cargo security requirements that are designed to ensure the safe and secure transportation of air cargo. It measures the percentage of eligible freight inspected on each flight; certain freight is exempted from the inspection requirement. Some flights have no eligible cargo. The sources of data are inspections by TSA Aviation Security Inspectors and supplemental documentation from the passenger air carriers. Results are tracked in the TSA Performance and Results Information System and reflect the selected flights that are inspected for compliance; not every flight of each carrier at each airport is inspected.

**Explanation of Fiscal Year 2004 Results:** Indirect Air Carriers tender cargo to the air carriers and certify that the cargo is from a known shipper. The Known Shipper Program is an information-based approach to cargo security through the identification of strong commercial relationships. The underlying assumption is that terrorist or criminal shippers of explosive devices or dangerous substances wish to remain anonymous and avoid the process of setting up a false business practice with documentation that could serve as forensic evidence. TSA met its target for inspection of known shipper air cargo and is moving forward in its efforts to develop and deploy advanced procedures and technology for screening cargo carried on commercial aircraft. Successes supporting this goal in fiscal year 2004 include:

- Deployment of a known shipper database, which will centralize known shipper data. A portion of this system is operable and is being used by industry on a voluntary basis. Presently, 3,500 indirect air carriers are participating in the voluntary program, and 450,000 known shippers have been registered.
- TSA is working closely with U.S. Customs and Border Protection (CBP) to leverage resources, identify areas for information and technology sharing, and strengthen the security of the air cargo supply chain. This effort builds on the Customs-Trade Partnership Against Terrorism (C-TPAT), which currently has more than 3,500 participants, including major U.S. importers and major passenger air carriers. Coupled with enhancements to the Known Shipper Program, these increases in supply chain security will significantly reduce the chances that an explosive device or other destructive substance or item could be loaded on a commercial passenger aircraft as cargo.
- In January 2004, Secretary Tom Ridge approved TSA's Air Cargo Strategic Plan, which charts a threat-based, risk-managed approach to strengthen the security of air cargo.
- TSA hired and trained 100 Aviation Security Inspectors (ASIs) who are exclusively dedicated to air cargo security. The cargo ASIs inspected 285 air carriers and 3,800 indirect air carriers and ensured that they were in compliance with their security programs. These cargo ASIs augment the force of approximately 650 generalist ASIs who are also trained to conduct cargo inspections.
- Throughout fiscal year 2004, TSA conducted "cargo strikes" at Los Angeles International Airport, Chicago O'Hare Airport and Miami International Airport. The purpose of these strikes was to direct a large number of TSA inspection resources at a particular airport for a limited period of time and to focus on indirect air carrier (freight forwarder) compliance with specific cargo security requirements. At O'Hare, for example, 273 indirect air carriers inspections were conducted during a four-day period, and 170 violations were identified and 69 investigations were initiated. TSA is also conducting focused cargo screening inspections at the top 45 cargo airports around the country on a rotating basis.
- TSA issued a market survey to identify what technology might be commercially available for break bulk cargo screening that can be tested against the TSA's certification standard for explosives detection systems. Additionally, TSA has issued a Broad Agency Announcement to seek proposals from inventors of promising technologies that may be used for containerized cargo and U.S. mail screening.
- TSA is working with prime contractor and industry partners to develop an approach to identifying and targeting high-risk cargo for inspection. The Freight Assessment Program is one of the cornerstones of the air cargo strategy and is on track for an initial deployment by the end of 2005.
- TSA works with Federal Security Directors and U.S. airport operators on a voluntary basis to deploy canine teams to screen cargo. TSA has asked that state and local governments and airport operators using TSA-certified canine teams nationwide to increase the amount of time they spend conducting random searches in multiple cargo facilities in the airport. Currently, 285 TSA-certified Explosives Detection Canine Teams operate at 64 domestic airports.
- During November 2003, based on intelligence information, random inspections were conducted on all-cargo aircraft landing at nine major U.S. airports from foreign destinations. These random inspections were conducted as a joint operation with TSA and CBP Cargo Inspectors and Explosives Detection Canine Teams. During the operation, 22 aircraft, along with its cargo, were searched.



# Performance Information

## Transportation Security Administration (TSA) – Compliance and Enforcement Program

### Performance Goal:

Protect the Nation's transportation system by deterring, detecting and defeating 100 percent of attempted hostile acts through the effective deployment of federal law enforcement and inspections personnel.

**Objectives Supporting:** 2.5 and 3.1

### Performance Measure:

Percentage of qualified airports that have executed law enforcement reimbursement agreements.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
<b>Target/Actual Indicator:</b>	N/A	60%	92%	Met

**Description:** This is a proxy measure for the performance goal that focuses on the extent TSA provides financial assistance to airports for the expense of providing law enforcement support at the passenger and baggage checkpoints. This funding will help ensure the checkpoints are suitably staffed to provide effective protection from hostile acts. The measure is based on the number of funded reimbursement agreements signed by TSA and the airports and tracked in the Law Enforcement Program Management Database.

**Explanation of Fiscal Year 2004 Results:** In the United States, each airport operator serving scheduled commercial air carriers must have a TSA-approved security program that provides for effective perimeter security, law enforcement support and access control. Current security directives contain many requirements for implementation by airport and aircraft operators that relate to screening or inspecting people and material entering airport perimeters, including secured areas. Local law enforcement is under contract with airport operators to provide a level of service to the airport that meets the standards set out in their individual airport security programs. Any additional services are eligible for reimbursement under negotiated agreements. During fiscal year 2004, TSA exceeded its target for providing financial reimbursement for the costs associated with law enforcement services that meet the minimum requirements of TSA. Airport operators are responsible for the remaining financial obligation. Airport operators, air carriers and other regulated parties are also monitored and inspected for compliance with pertinent security regulations and measures. Other efforts supporting this performance goal include:

- TSA's annual regulatory inspection program plan accomplished 34,079 oversight inspections of domestic airports, foreign and domestic passenger and cargo air carriers, and indirect air carriers' aircraft operators in the first 11 months of fiscal year 2004.
- TSA was given flexibility in the deployment of law enforcement officers at U.S. airports by the *Consolidated Appropriations Resolution of 2003*, Public Law 108-7. This measure, in addition to the reassignment of the Federal Air Marshal Service to U.S. Immigration and Customs Enforcement in late 2003, prompted TSA to redefine its law enforcement role at airports around the country. Assistant Federal Security Directors for Law Enforcement provide a critical liaison and coordination role with local, state and federal law enforcement and counterterrorism assets. Currently, 79 such directors provide dedicated coverage at all Category X and I airports and are available to support "spoke" airports near airport hubs.
- Every airport in the Nation has a perimeter security plan including random vehicle inspections as part of a comprehensive Bomb Incident Prevention Plan that must be incorporated into every local Airport Security Program.
- The TSA Transportation Worker Identification Program is exploring the development of an integrated credential-based, identity management system, including standards, for all transportation workers requiring unescorted access to secure areas of the Nation's transportation system. Phase II of the program, Technology Evaluation, was completed in October 2003. The Technology Evaluation Phase evaluated a number of potential card technologies. Phase III Prototype commenced in July 2004 and evaluates a broad range of business processes pertaining to identity management and tests a complete end-to-end solution for the program for the first time. A comprehensive cross-section of transportation modes, types of facilities and transportation workers are participating in the evaluation to meet prototype goals.
- TSA analysts have vetted 332,557 Sterile Area and Secure Identification Display Area (SIDA) aviation workers employed at airports across the United States. These transportation workers were screened against both criminal and terrorist-based databases to identify potential security threats. A total of 401 referrals were made for criminal-based threats, and nine were referred to the FBI based on potential terrorist links. TSA continues to conduct the initial round of vetting for the approximately 1.1 million SIDA and sterile area workers.
- TSA has resumed joint vulnerability assessments with the FBI. These assessments will be conducted at critical commercial U.S. airports as required by law. The process captures the components of the airport's security system and is used with assessments based on FBI-developed threat information. Comprehensive security-related information will be captured in a database to facilitate analysis and decision making.

# Performance Information

US-VISIT — United States Visitor and Immigrant Status Indicator Technology (US-VISIT) Program				
<b>Performance Goal:</b>				
Prevent entry of high-threat and inadmissible individuals through improved accuracy and timeliness of access to data in determining traveler's admissibility.				
<b>Objectives Supporting:</b> 2.1, 2.2 and 2.6				
<b>Performance Measure:</b>				
Percentage of foreign nationals entering the United States who have biometric and biographic information on file prior to entry, including the foreign nationals who are referred for further inspection actions and with fraudulent documents identified.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	20.6%	Met
<p><b>Description:</b> US-VISIT collects, maintains and shares information on foreign nationals to enhance national security, facilitate legitimate trade and travel, and ensure the integrity of our immigration system. This program, which is deployed in accordance with existing privacy laws and policies, provides information to embassies and ports of entry to assist in determining traveler identity, admissibility and threat potential. This effectively extends the physical border of the United States to provide a virtual border of proactive protection and prevention.</p> <p>US-VISIT, along with our border community partners, manages the processing of foreign nationals before they enter the United States, when they enter, while they are here and when they exit. This capability has provided U.S. Customs and Border Protection (CBP) Officers with an additional decision-making tool at air and sea ports of entry. As we move forward, we will expand the virtual border by maximizing port coverage and enhancing our technological capabilities.</p> <p>The percentage of pre-enrolled verifications (biometric identity verification at entry of those travelers whose biometric data are already on file to include biometric and biographic watch list "hits,") measures the expansion of the preventative capability US-VISIT provides the country in relation to high-threat and inadmissible individuals. As travelers' information is increasingly entered into the US-VISIT system at overseas consulates prior to entry and traveler biometric history is used for verification at entry, individual and document verification and preventative capability is expanded. This capability is based on improved accuracy of information provided by system integration and biometric identification and verification technologies.</p> <p>Foreign nationals entering the United States are aliens who travel through designated air and sea ports of entry, seeking to be admitted with a nonimmigrant visa. By recording information pertinent to arrival and departure of non-immigrants to and from the United States, US-VISIT supports national security, law enforcement and other mission-related functions.</p> <p><b>Explanation of Fiscal Year 2004 Results:</b> During this fiscal year, US-VISIT implemented initial operating capability at the Nation's airports and seaports. With this functionality, CBP Officers are now able to use biometric and biographic data to verify the identity of foreign nationals entering the United States with visas, determine their status and identify any reason to deny admissibility. Since the program was implemented January 5, 2004, there has been no identifiable impact on inspection processing times.</p> <p>To implement the initial capabilities of the system into 115 airports and 14 seaports, the Program Office along with Border and Transportation Security components (CBP and U.S. Immigration and Customs Enforcement):</p> <ul style="list-style-type: none"> <li>• Deployed 3,000 new workstations, inkless fingerprint scanners and digital cameras;</li> <li>• Trained more than 4,000 employees in a two-month period using existing Department training organizations and networks with applied technologies and delivery systems;</li> <li>• Upgraded communication lines, the Department's information technology infrastructure and redundancy throughout the enterprise; and</li> <li>• Disseminated brochures describing US-VISIT to travelers and developed videos to be televised in airports and onboard airlines.</li> </ul>				

# Performance Information

United States Coast Guard (USCG) – Aids to Navigation Program				
<b>Performance Goal:</b>				
By 2009, the Coast Guard will reduce the number of collisions, allisions and groundings by 26 percent, to 1,535 (five-year average).				
<b>Objectives Supporting:</b> 1.2, 2.5 and 6.4				
<b>Performance Measure:</b>				
Five-year average of number of collisions, allisions and groundings.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	1,999	1,923 or fewer	1,874	Met
<b>Description:</b> This measure is a five-year average of distinct collision, allision (vessel striking a fixed object), and grounding events. It is an average annual number of such events for the current and preceding four years. Data are collected from Coast Guard Marine Information for Safety and Law Enforcement System.				
<b>Explanation of Fiscal Year 2004 Results:</b> The five-year average number of distinct collision, allision and grounding events improved to 1,874 for fiscal year 2004. The five-year average number of collisions involving two or more vessels improved to 276; the five-year average number of allisions involving one or more vessels improved to 706; and the five-year average number of groundings involving one or more vessels improved to 892. Ongoing Vessel Traffic Service, waterways management improvements and continuous maintenance of Aids to Navigation availability have contributed to a steady decline in collisions, allisions and groundings.				

# Performance Information

United States Coast Guard (USCG) – Defense Readiness Program				
<b>Performance Goal:</b>				
By 2009, USCG will show a Navy Status Of Resources and Training System (SORTS) readiness level of 2 or better for all assets that may be used by combatant commanders in wartime. The Navy defines SORTS category level 2 as “Unit possesses the resources and is trained to undertake most of the wartime mission(s) for which it is organized or designed.” These readiness levels will indicate that the USCG is fully prepared to provide core competencies such as Maritime Interception Operations, Port Operations Security and Defense, Military Environmental Response Operations, Peacetime Engagement, Coastal Sea Control Operations and Theater Security Cooperation when requested by the Department of Defense.				
<b>Objectives Supporting:</b> 1.2 and 2.4				
<b>Performance Measure:</b>				
Percentage of time that USCG assets required by Navy operational plans are ready at a Navy SORTS rating of 2 or better.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	78	100	78	Not Met
<b>Description:</b> This measure assesses the state of readiness of an asset in relation to its capabilities, to include equipment, logistics, personnel, training and preparedness. This is a standardized system that is applied throughout the Department of Defense. The Department of the Navy SORTS is a self-evaluation performed periodically by the Commanding Officer and personnel for USCG assets. This measure represents the number of days that a USCG asset type is ready at a SORTS rating of 2 or better divided by the total number of days that Coast Guard assets are required by Department of Defense Operational Plans. Asset types tracked by this measure include High Endurance Cutters, 110’ Patrol Boats and Port Security Units. The number of asset days required for these assets is classified; however, the percentage that meets the overall total number of days for all asset types required is what we are using as a performance measure.				
<b>Explanation of Fiscal Year 2004 Results:</b> The Coast Guard will continue to assign resources as available to meet the Department’s growing needs. Many readiness degradations were linked to equipment casualties associated with operating an aging cutter fleet and unit personnel deficiencies that preclude achieving training objectives. Port Security Units, all of which have been mobilized in the last two years, have not been fully staffed with reserve personnel after demobilization. New personnel replacements have not kept pace with the departing reserve personnel who have been repeatedly mobilized since 2000. Lack of personnel precludes completion of individual training and qualifications requirements and then subsequent team training requirements. Until personnel numbers can be improved, training shortfalls cannot be corrected and readiness of these units cannot be improved. Improved SORTS ratings for Port Security Units will lead to the overall actual performance measure.				
<b>Recommended Action:</b> The Coast Guard has specific plans to recapitalize Deepwater assets (cutters and aircraft) to eliminate equipment casualties, thereby, eliminating the cause of deteriorated performance.				

# Performance Information

United States Coast Guard (USCG) – Drug Interdiction Program				
<b>Performance Goal:</b>				
By 2009, USCG will reduce the flow of illegal drugs by removing 30 percent of drug flow from maritime sources.				
<b>Objectives Supporting:</b> 1.1, 2.1 and 6.4				
<b>Performance Measure:</b>				
Removal rate for cocaine that is shipped via non-commercial maritime means.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	*16.3%	15%	<i>Estimated - 15%</i>	<i>Estimated - Met</i>
<p><b>Description:</b> The Cocaine Removal Rate is the amount of cocaine lost to the smuggler (through seizures, jettison, burning and other non-recoverable events) and will be based on values vetted through the Inter Agency Consolidated Counter-Drug Database (CCDB).</p> <p>Smugglers increasingly jettison or otherwise destroy the drugs they are carrying to prevent physical seizure by the Coast Guard. Therefore, to more accurately reflect Coast Guard counter-drug efforts and results, beginning in fiscal year 2004, USCG transitioned to a Cocaine Removal Rate as it encompasses both cocaine removed from the market as well as cocaine seized.</p> <p>*In fiscal year 2004, USCG changed the Drug Interdiction Performance measure from seizure rate to removal rate to include those drugs confirmed as jettisoned, sunk or otherwise destroyed. The fiscal year 2003 performance Actual represents only drugs that were seized.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> The 15 percent target for fiscal year 2004 aligns with the Office of National Drug Control Policy's <i>National Drug Control Strategy</i>. In fiscal year 2003, USCG seized 16.34 percent (62 metric tons) of the non-commercial maritime flow of cocaine to the United States. The Coast Guard removed more than 146 metric tons in fiscal year 2004. Fiscal year 2004 actual results are reported as estimated, as the total non-commercial maritime flow data will not be available until April 2005 when the Interagency Assessment of Cocaine Movement is published.</p> <p>In fiscal year 2004, we expanded our operations to seize vessels and arrest individuals for conspiring to support actual drug-smuggling ventures, resulting in a significant intelligence windfall. We have achieved the fiscal year 2004 target of removing 15 percent of cocaine shipped via non-commercial maritime conveyances. Our target for fiscal year 2005 is to remove 19 percent of cocaine shipped via non-commercial maritime conveyances. The target decreased slightly from the previous year because the current measure reflects the amount of drugs removed from transit as opposed to the amount of drugs seized. Now we are looking not only at the amount of drugs that we actually take aboard Coast Guard assets from smugglers, but also drugs that have been jettisoned or destroyed. The target for fiscal year 2004 was set well before the results were available for fiscal year 2003 – the target of 15 percent for fiscal year 2004 was set by looking at the previous three to five years' worth of data on drug seizures (which averaged 12 percent) and adding a conservative amount for drugs jettisoned or destroyed. In addition, the denominator of the measure, drug flow, was estimated as the lowest amount flowing in, elevating our achievement of percent drugs seized for the fiscal year 2003 performance measure actual.</p>				

# Performance Information

United States Coast Guard (USCG) – Ice Operations Program				
<b>Performance Goal:</b>				
By 2009, USCG will maintain operational channels for navigation, limiting channel closures to two days (during average winters) and eight days (during severe winters).				
<b>Objectives Supporting:</b> 1.1 and 2.5				
<b>Performance Measure:</b>				
Limit the number of days critical waterways are closed due to ice to two days in an average winter and eight days in a severe winter.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	7 (severe)	2 (average) 8 (severe)	4 (average)	Not Met
<p><b>Description:</b> This measure indicates the number of days critical waterways are closed due to ice conditions based on the severity of the winter. Nine waterways have been identified as critical to Great Lakes icebreaking based on historical ice conditions, volume of ship traffic and potential for flooding. Measure is for Great Lakes only – most Coast Guard icebreaking is done on the Great Lakes, with some in Coast Guard District 1 (Northeast U.S.) and an even smaller amount in Coast Guard District 5 (mid-Atlantic). However, our measure is based on Great Lakes icebreaking and measures number of days of critical waterway closures on the Great Lakes – no more than two in an average winter and eight in a severe winter. Winter severity is determined by a ratio developed by the National Weather Service, National Oceanographic and Atmospheric Administration (NOAA) and the Department of Commerce.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> An average winter on the Great Lakes resulted in a 10-day extension to the icebreaking season. As the extension period approached, winter conditions worsened and icebreaking assets were challenged to provide services in nine critical waterways, two more than in fiscal year 2003. Despite an icebreaker actively maintaining the waterway, the St. Mary's River was closed for four days when an ore carrier became beset and efforts to free the vessel were initially unsuccessful. The combination of an extended season, rapidly deteriorating conditions and increased icebreaker coverage requirements created significant challenges to meeting the demands of commerce. Despite the four-day closure, the extension of the navigational season resulted in the shipment of an additional 623,651 tons of iron ore and coal, valued at approximately \$21 million.</p>				
<p><b>Recommended Action:</b> As demonstrated by the fiscal year 2003 navigation season extension, the program must continue to take advantage of opportunities to exceed goals, despite short-term set backs in order to optimize services provided to commerce. We must continue to develop and fund a Maintenance Sustainment Availability overhaul for the icebreaking fleet. As the icebreaking tug classes approach 25 and 40 years in age, their maintenance and funding requirements increase while capability and reliability decrease. Domestic icebreaking program goals and performance measures are being evaluated.</p>				

# Performance Information

United States Coast Guard (USCG) – Marine Safety Program				
<b>Performance Goal:</b>				
By 2009, USCG will reduce the five-year average number of passenger and maritime worker fatalities and injuries, and recreational boating fatalities to 1,339 or less.				
<b>Objectives Supporting:</b> 2.5				
<b>Performance Measure:</b>				
Maritime and Injury Fatality Index.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	1,383	*1,513	<i>Not Available</i>	<i>Estimated - Met</i>
<b>Maritime Injuries/ Fatalities</b>	673	771	650	Met
<b>Recreational Deaths</b>	710	742	** <i>Not Available</i>	<i>Estimated - Met</i>
<p><b>Description:</b> This measure is a five-year average of reportable passenger and maritime worker deaths and injuries, and recreational boating fatalities, for the current and four previous years. Maritime worker deaths and injuries include reportable casualties of crewmembers or employees aboard U.S. commercial vessels. Passenger deaths and injuries include reportable casualties of commercial passengers on U.S. vessels operating in any waters and commercial passengers on foreign flag vessels operating in U.S. waters.</p> <p>*Target represents the five-year average of passenger and maritime worker deaths and injuries, and the annual number of recreational boating fatalities. State Boating Law Administrators will provide final data in July 2005.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> The rolling five-year average number of passenger and maritime worker deaths and injuries improved to 650 for fiscal year 2004 – well below the fiscal year 2004 target of 771.</p> <p>** State Boating Law Administrators will provide data to the Coast Guard by July 2005. However, based on previous years' actual performance data (721 reported recreational boating deaths in calendar year 2001 and 707 reported in calendar year 2002), USCG expects to meet its sub-goal of less than 742 recreational boating deaths for calendar year 2004. USCG estimates the index figure for fiscal year 2004 to be favorably under our annual target of 1,513 fatalities.</p> <p>Continuous improvement of our performance in marine safety is due to ongoing inspection, investigation, prevention and response programs as well as our work with industry partners in promoting the benefits of safe operations. Recreational boating safety classes offered by the Coast Guard Auxiliary – a key component in reducing the number of accidents – reached more than 55,000 adults and 100,000 youths in fiscal year 2004. Additionally, worldwide efforts through the International Maritime Organization continue to improve the quality of mariner training and qualification, thereby reducing the human factors that cause accidents and resulting casualties.</p>				

# Performance Information

United States Coast Guard (USCG) – Migrant Interdiction Program				
<b>Performance Goal:</b>				
By 2009, USCG will reduce the flow of undocumented migrants entering the United States by interdicting or deterring 95 percent of undocumented migrants attempting to enter the United States through maritime routes.				
<b>Objectives Supporting:</b> 1.1, 2.2, 6.3 and 6.4				
<b>Performance Measure:</b>				
Interdict or deter a certain percentage of undocumented migrants who attempt to enter the United States via maritime routes.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	85.3%	87%	87.1%	Met
<p><b>Description:</b> The number of migrants entering the United States by maritime routes compared with the number of migrants that would attempt to enter with no interdiction presence.</p> <p>Note: The measure tracks four migrant groups – Haitian, Cuban, Dominican and Chinese – at this time. A small number of migrants (approximately 10 percent) from various source countries are not included because formal flow estimates of migrants leaving these countries are not available.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> There were 4,761 successful arrivals out of an estimated threat of 37,000 migrants, yielding an 87.1 percent performance result. Socioeconomic and political conditions continue to drive migrant flow. Haitian, Cuban, Dominican and Chinese migrants are using new migrant routes via the Mona Pass, Turks and Caicos, U.S. Virgin Islands, the Bahamas and Mexico. There was a significant increase in migrant flow out of the Dominican Republic during the past year as its economy continued to fall, causing inflation to increase more than 30 percent. Interdicting Dominicans is especially challenging because they travel at night some 75 miles across the Mona Pass into Puerto Rico. Professional smugglers facilitate their journey. Additionally, fiscal year 2004 yielded an increased flow in Haitian migrants as a result of an uprising that led to the departure of President Jean-Bertrand Aristide. Cuban and Chinese migrant flow remained similar to recent years. Overall, USCG interdicted the most migrants at sea in fiscal year 2004, since the Cuban and Haitian mass migrations of 1994.</p>				



# Performance Information

United States Coast Guard (USCG) — Ports, Waterways and Coastal Security Program				
<b>Performance Goal:</b>				
<p>As stated in the Fiscal Year 2004 Annual Performance Plan: By 2009, the Coast Guard will reduce homeland security risk in the maritime domain by obtaining Maritime Security Condition (MARSEC) level-1 85 percent of the time.</p> <p>As enhanced to reflect program counter-terrorism performance: To reduce the security risk due to terrorism in the maritime domain.</p>				
<b>Objectives Supporting:</b> 1.2, 2.1 and 3.1				
<b>Performance Measure:</b>				
<p>As stated in the Fiscal Year 2004 Annual Performance Plan: (Interim) MARSEC level attainment percentage</p> <p>As to be developed to better reflect program counter-terrorism performance: The proposed Coast Guard Ports, Waterways and Coastal Security (PWCS) performance measure is being developed.</p>				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Not Established	Not Available	Not Available
<p><b>Description:</b> The proposed measure is a risk-based index informed by scenarios that represent the most serious anticipated risks due to terrorism in the maritime domain.</p> <p>The initial interim proposed performance measure was adjusted in fiscal year 2004 to better reflect program counter terrorism performance.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> Much has been accomplished in the PWCS arena. The Coast Guard continues to improve its understanding of the threat, vulnerability and consequence dimensions of terror-related risks in the maritime domain and refine its intervention plans. The Coast Guard has re-worked its budget base to better serve post-September 11<sup>th</sup> priorities and has sought and obtained new authorities and capabilities. Various specific activities and initiatives continue to reduce risk in the maritime domain, including improvements to Operation Neptune Shield, which identifies operational activity performance targets for Coast Guard forces; issuance of <i>Maritime Transportation Security Act</i> regulations; establishment of the International Port Security Program; reorganization of several Coast Guard operational field offices into more effective sector commands; creation of a program office dedicated to Maritime Domain Awareness; and establishment of Field Intelligence Support Teams in the Nation's ports. In addition, the Coast Guard has conducted 46 of 55 planned Port Security Assessments and anticipates completing 54 by the end of December 2004. The last port (Oakland/San Francisco) will be completed in the January-February 2005 timeframe.</p>				
<p><b>Recommended Action:</b> The Coast Guard is anxious to demonstrate the measurable reduction in terror-related risk that will result from the continued build-out of its Ports, Waterways and Coastal Security mission-program. Pending final approval of its suggested measure, the Coast Guard will be one step closer to being able to effectively communicate the results of its PWCS program.</p>				

# Performance Information

## U.S. Customs and Border Protection (CBP) – Border Security Inspections and Trade Facilitation at Ports of Entry Program

### Performance Goal:

Protect the Homeland from acts of terrorism and reduce its vulnerability to the threat of international terrorists. Move legitimate cargo and people efficiently while safeguarding the border and the security of the United States.

**Objectives Supporting:** 2.1, 2.2, 2.3 and 6.4

### Performance Measure:

Advanced Passenger Information System (APIS) Data Sufficiency Rate (percentage of flights with passenger data provided data sufficiency rate in fiscal year 2002 and beyond).

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
<b>Target/Actual Indicator:</b>	98%	94.2%	98%	Met

**Description:** This measure is an estimate of the level of effectiveness of the primary processing method in identifying high-risk passengers identified through name checks against federal law enforcement databases. It is also the data sufficiency rate of information received for international air passengers. It is used to evaluate the quality/usefulness of data received. Improvements are based largely on the initiative requests submitted through the budget process.

**Explanation of Fiscal Year 2004 Results:** Commercial carriers are required by statute to transmit APIS data for passengers and crewmembers. Carriers may incur penalties if they do not maintain a minimum of a 97 percent sufficiency rate on a weekly basis. APIS results provide an indicator of how well information is gathered regarding passengers traveling to the United States prior to their arrival. This information is critical to CBP's efforts to identify potential terrorists before they attempt to board aircraft traveling to the United States.

### Performance Measure:

Outbound Currency Seizures (In Millions of dollars).

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
<b>Target/Actual Indicator:</b>	51.7	50.7	46.05	Not Met

**Description:** The value of outbound monetary instruments (defined as U.S. or foreign coins and currency, travelers checks, money orders, investment securities, etc. as defined by the *Currency and Foreign Transactions Reporting Act, P.L. 97-25B, 31 USC 5311*), e.g., seized currency, by or with the participation of CBP Officers for violations of currency reporting regulations and bulk currency smuggling regulations.

**Explanation of Fiscal Year 2004 Results:** There are several reasons the target was not met. For one, during the past year, we have gone to Level Orange (High) Alerts on several occasions. Being at the Orange Level is believed to reduce attempts to transport currencies because officials at the borders being on heightened alert deters the smugglers.

The Outbound Currency Program is instrumental in interdicting and deterring the illicit flow of money to terrorist activities and narcotic trafficking organizations. Dedicated Outbound Currency Teams are a crucial element in the fight against terrorism and drugs. Without money and/or other monetary instruments, it would be extremely difficult for terrorists and narcotic traffickers to execute their plans. It is, therefore, important for CBP to build and expand the (Outbound) Currency Program.

**Recommended Action:** CBP is examining ways to increase the outbound currency seizures for the current fiscal year and subsequent fiscal years. These may include joint operations to target currency with ICE and other federal and local law enforcement agencies.

# Performance Information

<b>Performance Measure:</b>				
Counter-Terrorism Qualitative Assessment.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Qualitative Assessment	Not Available	Not Available
<b>Description:</b> A qualitative assessment of U.S. Customs and Border Protection (CBP) efforts to identify, disrupt and dismantle organizations that further terrorist activity.				
<b>Explanation of Fiscal Year 2004 Results:</b> While meetings were held to develop a methodology to conduct the qualitative assessment, a methodology was not finalized.				
<b>Recommended Action:</b> In conjunction with the Department, CBP will work to develop and implement a methodology to conduct the qualitative assessment.				

<b>Performance Measure:</b>				
Compliance Rate in the Air Passenger Environment (percentage of travelers compliant).				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	99%	99.2%	99.2%	Met
<b>Description:</b> The Compliance Rate in the air passenger environment (percent of travelers compliant), otherwise referred to as COMPEX rate, is a statistical sampling technique that is outcome/result driven. It is an outcome measure because it estimates the threat approaching the port of entry and the effectiveness of officer targeting toward that threat. COMPEX also measures apprehension rate. The measure is valid because it encompasses enforcement actions taken at a port of entry and a sampling of passengers who are considered low risk and would not otherwise be examined. These data are used to determine the percentage of travelers who are compliant with the laws, rules, regulations and agreements enforced by CBP. The data are pulled from the Treasury Enforcement Communication System, airport secondary result screen.				
<b>Explanation of Fiscal Year 2004 Results:</b> The results demonstrate what the threat is at major airports and how well CBP is addressing that threat. High percentage levels were maintained in fiscal year 2004 due to CBP having knowledge of the potential threat facing a port and by appropriately responding to it, thereby greatly increasing the likelihood of preventing potential terrorists from entering the United States.				

<b>Performance Measure:</b>				
Compliance Rate in the Vehicle Passenger Environments (percentage of travelers compliant).				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	99.9%	99.9%	99.9%	Met
<b>Description:</b> The percentage of compliant passenger data is a statistically valid estimate of the percentage of vehicles approaching the port of entry that are not in violation of any laws, rules, regulations or agreements enforced by CBP. The rate of compliance is determined by estimating the total number of violations present in the population of vehicles approaching the port of entry and dividing it by the total number of vehicles subject to random sampling at the port of entry. Improvements are based largely on the initiative requests.				
<b>Explanation of Fiscal Year 2004 Results:</b> The estimated number (99.9 percent) of targeted vehicles (sample) entering the ports of entry during fiscal year 2004 were actually referred (99.9 percent) using a random sampling, and the results were 99.9 percent in compliance. By ensuring a high percentage of all vehicles traveling to the United States are not in violation of any laws, rules or regulations, we greatly increase the likelihood of preventing potential terrorists from entering the United States. The results indicated here demonstrate that virtually all vehicles entering the United States are being screened for such violations. High performance levels were maintained in fiscal year 2004 indicated by a 99.9 percent compliance rate.				

# Performance Information

<b>Performance Measure:</b>				
Outbound Enforcement Targeting Effectiveness (percentage effective).				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	5.74%	9.0%	30.59%	Met
<p><b>Description:</b> Outbound Enforcement Targeting Effectiveness is the total number of positive examinations of cargo that was exported divided by the total number of targeted examinations conducted. This measure captures the targeting effectiveness for all manually targeted exams recorded in the Outbound Targeting and Tracking System and all other exams targeted by the Automated Export System. Both sets of data are combined and a percentage is expressed. Data supporting this measure are extracted from the Operations Management Report.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> The fiscal year 2004 target was 9 percent for the year. The fiscal year 2004 actual was 30.59 percent or 7.65 percent per quarter instead of 2.25 percent per quarter as predicted. The increase was due to more outbound inspections using high technology non-intrusive equipment and better targeting capabilities.</p>				

<b>Performance Measure:</b>				
Outbound Licensing Violations (number of violations found).				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	993	800	2,123	Met
<p><b>Description:</b> This is CBP's most significant measure. Outbound Licensing Violations are the number of seizures for violations of the Department of State, Department of Commerce and the Office of Foreign Assets Control (OFAC) licensing regulations for exports. Outbound Licensing Violations are the combined total number of seizures for violations of the International Traffic in Arms Regulations (ITAR), Export Administration Regulations (EAR) and the OFAC sanctions. Data are extracted from information collected from the Treasury Enforcement Communications System Clear Reports for violations.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> The enforcement of U.S. export control laws and regulations are critical to the CBP anti-terrorism mission. CBP enforcement of ITAR, EAR and OFAC regulations is to prevent terrorist and other criminal entities from obtaining conventional weapons, weapons of mass destruction and commodities or technologies that can be converted into weapons to be used against the United States and U.S. interests in the United States and abroad.</p> <p>Seizure numbers for fiscal year 2004 increased significantly due solely to the efforts of CBP Officers working interdiction and security (outbound) operations. The number of CBP Officers working outbound operations is very limited.</p> <p>The number of seizures interdicted during fiscal year 2004 indicates that there are serious and numerous attempts by other countries to obtain weapons and parts from the United States and that U.S. companies are not complying with U.S. export control laws and regulations. CBP needs to support interdiction and security (outbound) by establishing permanent dedicated outbound teams at all major airports, seaports and land border ports; providing funding to the Automated Export System and Automated Targeting System to increase automated targeting capabilities and export manifesting for all modes of transportation; and providing equipment and tools to allow CBP officers to conduct examinations.</p>				

# Performance Information

<b>Performance Measure:</b>				
Cocaine seized – thousands of pounds (at ports of entry).				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	76.2	77.8	44.6	Not Met
<p><b>Description:</b> Improvements are based largely on the initiative requests. A consistent drug flow was assumed in establishing these targets; however, changes in drug flow to U.S. borders may impact targets. The overall impact of drug interdiction efforts must be evaluated in light of total federal supply-and-demand reduction efforts. Narcotics seizure estimates are soft estimates due to the related unknowns such as trafficking patterns. This measure includes the amount of cocaine seized at the ports of entry by or with the participation of CBP Officers from passengers, vehicles, commercial and private aircraft, vessels, trucks, cargo and railcars entering the United States.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> All drug projections were based on fiscal year 2003 data, which included both components of legacy U.S. Customs Service – Office of Field Operations (OFO) and Investigations. We are now measuring our progress under the new CBP structure, which only includes data for OFO. Drug enforcement data indicate that seizure activity is returning to pre-September 11<sup>th</sup> levels. This is primarily due to the fact that the increases we saw immediately after September 11<sup>th</sup> have leveled off. Immediately after September 11<sup>th</sup>, the greatly enhanced inspections during heightened alert level operations resulted in more seizures. We have now realized all the early efficiencies we could hope to achieve from those enhanced operations. Not all new and additional canine resources are exclusively narcotics detection. New assets include canine capabilities to address our priority mission of anti-terrorism; namely chemical and explosive detection. As we further institutionalize our priority mission, we will likely find that the same characteristics that make someone suspicious for anti-terrorism threats are not always the same as the characteristics that make someone suspicious for narcotics smuggling.</p>				
<p><b>Recommended Action:</b> CBP will adjust its future target levels to more closely reflect current operations, and we anticipate we will be able to meet our targets in future years.</p>				

<b>Performance Measure:</b>				
Cocaine seized – number of seizures (at ports of entry).				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	1,806	1,788	2,095	Met
<p><b>Description:</b> Improvements are based largely on the initiative requests. A consistent drug flow was assumed in establishing these targets; however, changes in drug flow to U.S. borders may impact targets. The overall impact of drug interdiction efforts must be evaluated in light of total federal supply-and-demand reduction efforts. Narcotics seizure estimates are soft estimates due to the related unknowns such as trafficking patterns. This measure includes the amount of cocaine seized at the ports of entry by or with the participation of CBP Officers from passengers, vehicles, commercial and private aircraft, vessels, trucks, cargo and railcars entering the United States.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> Drug enforcement data indicate that seizure activity is returning to pre-September 11<sup>th</sup> levels. This is primarily due to the fact that the increases we saw immediately after September 11<sup>th</sup> have leveled off. Immediately after September 11<sup>th</sup>, the greatly enhanced inspections during heightened alert level operations resulted in more seizures. We have now realized all the early efficiencies we could hope to achieve from those enhanced operations.</p>				

# Performance Information

<b>Performance Measure:</b>				
Marijuana seized – thousands of pounds (at ports of entry).				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	864.8	873.8	652.8	Not Met
<p><b>Description:</b> Improvements are based largely on the initiative requests. A consistent drug flow was assumed in establishing these targets; however, changes in drug flow to U.S. borders may impact targets. The overall impact of drug interdiction efforts must be evaluated in light of total federal supply-and-demand reduction efforts. Narcotics seizure estimates are soft estimates due to the related unknowns such as trafficking patterns. This measure includes the amount of marijuana seized at the ports of entry by or with the participation of CBP officers from passengers, vehicles, commercial and private aircraft, vessels, trucks, cargo and railcars entering the United States.</p> <p><b>Explanation of Fiscal Year 2004 Results:</b> Anti-terrorism continues to be the No. 1 CBP priority; therefore, fewer primary assets are dedicated exclusively to drug interdiction. All drug projections were based on fiscal year 2003 data, which included both components of legacy U.S. Customs Service – Office of Field Operations (OFO) and Investigations. We are now measuring our progress under the new CBP structure, which only includes data for OFO. The total weight of marijuana seized at ports of entry has been on a steady decrease during the past three years. That trend is likely to continue as more domestic hydroponic operations are created and more large-scale growth operations are discovered in remote areas of the western United States.</p> <p><b>Recommended Action:</b> CBP will adjust its future target levels to more closely reflect current operations, and we anticipate we will be able to meet our targets in future years.</p>				

<b>Performance Measure:</b>				
Marijuana seized – number of seizures (at ports of entry).				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	10,516	10,422	10,514	Met
<p><b>Description:</b> Improvements are based largely on the initiative requests. A consistent drug flow was assumed in establishing these targets; however, changes in drug flow to U.S. borders may impact targets. The overall impact of drug interdiction efforts must be evaluated in light of total federal supply-and-demand reduction efforts. Narcotics seizure estimates are soft estimates due to the related unknowns such as trafficking patterns. This measure includes the amount of marijuana seized at the ports of entry by or with the participation of CBP Officers from passengers, vehicles, commercial and private aircraft, vessels, trucks, cargo and railcars entering the United States.</p> <p><b>Explanation of Fiscal Year 2004 Results:</b> Drug enforcement data indicate that seizure activity is returning to pre-September 11<sup>th</sup> levels. This is primarily due to the fact that the increases we saw immediately after September 11<sup>th</sup> have leveled off. During that time, the greatly enhanced inspections during heightened alert level operations resulted in more seizures. We have now realized all the early efficiencies we could hope to achieve from those enhanced operations.</p>				

# Performance Information

<b>Performance Measure:</b>				
Heroin seized – thousands of pounds (at ports of entry).				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	3.8	3.9	2.8	Not Met
<p><b>Description:</b> Improvements are based largely on the initiative requests. A consistent drug flow was assumed in establishing these targets; however, changes in drug flow to U.S. borders may impact targets. The overall impact of drug interdiction efforts must be evaluated in light of total federal supply-and-demand reduction efforts. Narcotics seizure estimates are soft estimates due to the related unknowns such as trafficking patterns. This measure includes the amount of heroin seized at the ports of entry by or with the participation of CBP Officers from passengers, vehicles, commercial and private aircraft, vessels, trucks, cargo and railcars entering the United States.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> The fastest growth in CBP staffing has been directed at U.S.-Canadian border threats. The primary threat on the U.S.-Canadian border is from people or weapons that terrorist cells can direct at targets in the United States. Though the border control threat is quickly moving eastward, more than 60 percent of all narcotics seizures still occur along the U.S.-Mexican border. The rate of increase in staffing levels along the U.S.-Mexican border has slowed from the 1990s pace. For heroin, data validate that the average weight per seizure has decreased. This may be an indication that smugglers/controllers are returning to smaller quantities that can be more deeply concealed to escape detection.</p>				
<p><b>Recommended Action:</b> CBP will adjust its future target levels to more closely reflect current operations, and we anticipate we will be able to meet our targets in future years.</p>				

<b>Performance Measure:</b>				
Heroin seized – number of seizures (at ports of entry).				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	771	802	631	Not Met
<p><b>Description:</b> Improvements are based largely on the initiative requests. A consistent drug flow was assumed in establishing these targets; however, changes in drug flow to U.S. borders may impact targets. The overall impact of drug interdiction efforts must be evaluated in light of total federal supply-and-demand reduction efforts. Narcotics seizure estimates are soft estimates due to the related unknowns such as trafficking patterns. This measure includes the amount of heroin seized at the ports of entry by or with the participation of CBP Officers from passengers, vehicles, commercial and private aircraft, vessels, trucks, cargo and railcars entering the United States.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> Anti-terrorism continues to be the No. 1 CBP priority; therefore, fewer primary assets are dedicated exclusively to drug interdiction. All drug projections were based on fiscal year 2003 data, which included both components of legacy U.S. Customs Service – Office of Field Operations (OFO) and Investigations. We are now measuring our progress under the new CBP structure, which only includes data for OFO. Drug enforcement data indicate that seizure activity is returning to pre-September 11<sup>th</sup> levels. This is primarily due to the fact that the increases we saw immediately after September 11<sup>th</sup> have leveled off. During that time, the greatly enhanced inspections during heightened alert level operations resulted in more seizures.</p>				
<p><b>Recommended Action:</b> CBP will adjust its future target levels to more closely reflect current operations, and we anticipate we will be able to meet our targets in future years.</p>				

# Performance Information

<b>Performance Measure:</b>				
International Air Passengers in Compliance with Agricultural Quarantine Regulations (percentage compliant).				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	97%	97%	97%	Met
<p><b>Description:</b> The percentage of passengers in the air who are compliant with the Agricultural Quarantine Regulations. The compliance rates are based on statistical sampling. The actual performance result listed above is the midpoint of the range. The program collects data used to measure this performance goal through agricultural inspection monitoring activities. Program officials collect data at multiple ports of entry for the air passenger, border vehicle and cargo pathways by applying standard statistical sampling procedures.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> Performance measures best represent the random inspection of travelers and cargo. The data collected from inspection not only help us to estimate the percentage of compliance but also provides information concerning various agricultural items seized to better understand the threat risk of agricultural pests and diseases. Inspecting travelers and cargo are important in keeping prohibited items out of the United States, as well as monitoring for significant agricultural threats, encouraging compliance with regulations and educating the public and importers concerning agricultural quarantine regulations.</p>				

<b>Performance Measure:</b>				
Border Vehicle Passengers in Compliance with Agricultural Quarantine Regulations (percentage compliant).				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	96%	96%	96%	Met
<p><b>Description:</b> The percentage of passengers in the vehicle environment who are in compliance with the Agricultural Quarantine Regulations. The compliance rates are based on statistical sampling. The actual performance result listed in the table above is the midpoint of the range. The program collects data used to measure this performance goal through AI Monitoring activities. Program officials collect data at multiple ports of entry for the air passenger, border vehicle and cargo pathways by applying standard statistical sampling procedures.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> Performance measures best represent the random inspection of travelers and cargo. The data collected from inspection not only help us to estimate the percentage of compliance but also provides information concerning various agricultural items seized to better understand the threat risk of agricultural pests and diseases. Inspecting travelers and cargo are important in keeping prohibited items out of the United States, as well as monitoring for significant agricultural threats, encouraging compliance with regulations and educating the public and importers concerning agricultural quarantine regulations.</p>				



# Performance Information

U.S. Customs and Border Protection (CBP) – Border Security and Control Between Ports of Entry Program				
<b>Performance Goal:</b>				
Strengthen national security at and between ports of entry to prevent the illegal entry of people and contraband into the United States.				
<b>Objectives Supporting:</b> 2.1 and 2.2				
<b>Performance Measure:</b>				
High priority border corridors demonstrating optimum deterrence.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	9	11	11	Met
<p><b>Description:</b> The primary indicator of successful border security initiatives is the significant reduction and leveling off of attempted entry. Optimum deterrence is defined as the level at which applying more Border Patrol Agents and resources would not yield a significant gain in arrests/deterrence. This is a critical point in our strategy, as it would not be logical to try to reach essentially zero illegal entry attempts in one location while there are literally thousands of such attempts in another location. Through sufficient staffing in recent years, we have been able to profile and predict the trend pattern to reaching optimum deterrence. It takes several years of staffing build ups until a peak is reached in staffing levels and arrests, followed by a reduction in illegal entry attempts (deterrence), culminating in a leveling off of both resources and arrests (optimum deterrence). Although we look to an eventual reduction in arrests as a primary indicator of illegal entry attempts (and therefore deterrence), other critical indicators include: decrease in border-related crime, decrease in recidivism, shifting of illegal activity to non-traditional points of entry and through non-traditional methods, increase in smuggling fees, increase in property values and commercial and public development along the border, etc. Each of these factors (and others) is part of a comprehensive analysis conducted for each area.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> Patterns in illegal border crossings determine those areas of the border deemed high priority for border control efforts. This measure indicates the extent to which resources have been devoted to these high priority corridors to ensure optimum deterrence is achieved. Improvements in fiscal year 2004 were obtained through a variety of initiatives that introduced new approaches to border security at the southwestern U.S. border, including the implementation of an unprecedented and integrated border security initiative known as the Arizona Border Control Initiative, use of unmanned aerial vehicles for surveillance and information gathering, increase of technological resources, increase of intelligence gathering and targeting, and furtherance of cooperative enforcement efforts within and outside the Department.</p>				

# Performance Information

U.S. Customs and Border Protection (CBP) — Container Security Initiative Program				
<b>Performance Goal:</b>				
Prevent the entry of terrorists, instruments of terror and contraband in shipping containers, while facilitating the legal flow of goods by pushing the Nation's zone of security beyond our physical borders to 100 percent of targeted ports, through international partnerships.				
<b>Objectives Supporting:</b> 2.1				
<b>Performance Measure:</b>				
Maximize targeting effectiveness of high-risk containerized cargo.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	100%	100%	Met
<b>Description:</b> Aggregate ratio of U.S. versus foreign bills of lading (shipping information) reviewed. This operational performance measure identifies the goals and metrics pertinent to the daily operation of the program, i.e. bills of lading reviewed, containers examined, investigative cases opened, etc.				
<b>Explanation of Fiscal Year 2004 Results:</b> Results for fiscal year 2004 show that 100 percent of foreign bills of lading for maritime cargo destined to the United States from Container Security Initiative (CSI) ports are being reviewed prior to ship departure. Reviewing cargo containers prior to their departure from foreign ports supports CBP's and CSI's dual goals of preventing potential terrorist weapons or activities from entering the United States and facilitating the movement of legitimate trade and travel through designated U.S. ports of entry.				
Improvements during fiscal year 2004 were obtained by increasing the percentage of bills of lading received 24 hours prior to container departure from foreign ports under the <i>24 Hour Advance Manifest Rule</i> , enhancements in the Automated Targeting System for high-risk cargo, and timely staffing of newly operational ports. During the year, 6 percent of total cargo containers reviewed were identified as potential threats and were physically inspected in the CSI port of origin or immediately upon arrival in the United States.				

# Performance Information

U.S. Customs and Border Protection (CBP) – Customs-Trade Partnership Against Terrorism (C-TPAT) Program				
<b>Performance Goal:</b>				
Move legitimate cargo efficiently while safeguarding the border and the security of the United States.				
<b>Objectives Supporting:</b> 2.1				
<b>Performance Measure:</b>				
Percentage of sea containerized cargo transported by C-TPAT carriers.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	93%	93%	95.3%	Met
<p><b>Description:</b> The amount of sea cargo shipped through C-TPAT certified carriers. Certified C-TPAT carriers have submitted a verifiable security profile and have committed to implementing the security actions listed in the C-TPAT agreement and security recommendations. This method of shipment maintains effective security processes throughout the international transportation chain, from the foreign port of lading to the port of importation.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> Based on <i>Journal of Commerce</i> data, C-TPAT sea carriers comprised 95.3 percent of the 20-foot equivalent units imports into the United States. This measure indicates that the more foreign containerized cargo shipped through C-TPAT member supply chains, the greater control of the supply chain. This decreases the likelihood of instruments of terror being imported into the United States. The higher percentage of cargo transported through C-TPAT carriers also greatly facilitates the process of reviewing, screening, loading and unloading cargo containers to facilitate the legal flow of trade. Improvements during fiscal year 2004 were obtained by adding 15 C-TPAT carriers to the international supply chain, along with implementing procedures to regularly review the maintenance of program standards. C-TPAT certified carriers also contribute to international security by promoting C-TPAT membership with their customers, service providers and other members of the international trade community.</p>				

# Performance Information

## U.S. Customs and Border Protection (CBP) – Non-Intrusive Detection and Inspection Technology Program

### Performance Goal:

Protect the Homeland from acts of terrorism and reduce its vulnerability to the threat of international terrorists. Move legitimate cargo and people efficiently while safeguarding the border and the security of the United States. Contribute to a safer America by prohibiting the introduction of illicit contraband into the United States.

**Objectives Supporting:** 2.1 and 2.3

### Performance Measure:

The percentage of Non-Intrusive Inspection (NII) examinations performed of the total number of truck and rail containers arrived.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
<b>Target/Actual Indicator:</b>	15%	10%	26.6%	Met

**Description:** Prevent the entry of terrorists, the instruments of terror and contraband while facilitating the legal flow of people, goods and services on which our economy depends. Contribute to a safer America by preventing the introduction of illicit contraband into the United States. The figures above represent the total number of examinations conducted using NII technology in the land environment versus the total number of containers arrived in same. Information is based on the Operations Management System/Port Tracking data extracted from the Treasury Enforcement Community System.

**Explanation of Fiscal Year 2004 Results:** While these data can be considered very reliable, it is subject to error, such as input errors that are not caught by the reviewing supervisory officer. Results for this measure indicate the extent that sophisticated equipment is being used to screen arriving rail and truck containers for weapons of mass destruction. The higher percentage of cargo screened using NII, the greater the likelihood of detection of potentially hazardous material and the prevention of it entering the United States. During fiscal year 2004, we implemented numerous new technologies, including radiation portal monitors and portal gamma ray imaging to detect weapons of mass destruction at land ports of entry. The combination of obtaining equipment, training personnel and actual implementation has resulted in the increased percentage of cargo screened and increased probability of detecting potentially hazardous material.

### Performance Measure:

The percentage of Non-Intrusive Inspection (NII) examinations performed of the total number of sea containers arrived.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
<b>Target/Actual Indicator:</b>	5.3%	5%	5.2%	Met

**Description:** Prevent the entry of terrorists, the instruments of terror and contraband while facilitating the legal flow of people, goods and services on which our economy depends. Contribute to a safer America by preventing the introduction of illicit contraband into the United States. The figures above represent the total number of examinations conducted using NII technology in the sea environment versus the total number of containers arrived in same. Information is based on Operations Management System/Port Tracking data extracted from the Treasury Enforcement Communication System.

**Explanation of Fiscal Year 2004 Results:** While these data can be considered very reliable, they are subject to error, such as input errors that are not caught by the reviewing supervisory officer. Results for this measure indicate the extent sophisticated equipment is being used to screen arriving sea containers for weapons of mass destruction. The higher percentage of cargo screened using NII, the greater the likelihood of detection of potentially hazardous material, and the prevention of it entering the United States. During fiscal year 2004, we implemented a variety of combined technologies, including radiation portal monitors, pallet gamma ray scanners and large-scale heavy penetration X-ray scanning equipment in more than 15 sea ports of entry to detect weapons of mass destruction. The combination of obtaining equipment, training personnel and actual implementation has resulted in the increased percentage of cargo screened and increased probability of detecting potentially hazardous material.

# Performance Information

## U.S. Customs and Border Protection (CBP) – Automation Modernization

### Performance Goal:

By 2009, improve risk targeting of goods imported through the continued roll out of the Automated Commercial Environment (ACE). Meet or exceed project cost schedules. Improve application systems availability and operational efficiency to users. Maintain an unqualified opinion on the audit of financial systems. Increase the use of e-commerce throughout financial processes. Increase the delivery of training through distance learning.

**Objectives Supporting:** 2.2 and 6.4

### Performance Measure:

Percentage of Participating Government Agencies forms filed electronically.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
<b>Target/Actual Indicator:</b>	15%	10%	5%	Not Met

**Description:** This measure will determine the level of automation that the International Trade Data System (ITDS) will provide the trade. This system enables the one-time entry of trade information and creates a central repository of information that can be routed to the appropriate government agencies in an efficient and timely manner. The trade information in ITDS can be leveraged for multiple purposes, including risk assessment to aid in the screening of cargo and conveyances. Risk management allows the Federal Government to focus on the high-risk cargo for potential terrorist implications while facilitating the trade of low-risk cargo. ITDS aims to greatly increase the number of trade forms submitted electronically over the course of deployment as a measure of its effectiveness for being a “single window for trade.” The Office of Management and Budget calculates the number of forms processed electronically and the associated trade burden.

**Explanation of Fiscal Year 2004 Results:** Currently, it is estimated that 5 percent of the total trade forms are submitted and processed electronically. Each new release of ACE will increase the percentage of participating government agencies that can file their trade data electronically. Efforts were made during fiscal year 2004 on Release 4, but the delay in the release prevented the expected increase in forms being filed electronically during this time period.

**Recommended Action:** Our performance measure results were not met due to the delay in the ACE Release 4 deployment. The result is the current state of form submitted electronically and does not indicate the effectiveness of the ITDS system. The first ITDS functionality is now scheduled for full operational capability in February 2005. The performance measurement can be assessed at the end of fiscal year 2005.

## U.S. Immigration and Customs Enforcement (ICE) – Federal Air Marshal Service Program

### Performance Goal:

Classified

**Objectives Supporting:** 2.5 and 3.1

### Performance Measure:

Level of Federal Air Marshal coverage for each individual category of identified risk.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
<b>Target/Actual Indicator:</b>	Classified	Classified	Classified	Met

**Description:** Classified

**Explanation of Fiscal Year 2004 Results:** Classified

# Performance Information

U.S. Immigration and Customs Enforcement (ICE) – Air and Marine Operations Program				
<b>Performance Goal:</b>				
Deny the use of airspace for implementing acts of terrorism against critical infrastructure, personnel and institutions within the United States and its territories.				
<b>Objectives Supporting:</b> 2.1 and 3.1				
<b>Performance Measure:</b>				
Reduce the number of airspace intrusions within the Flight Restricted Zone (FRZ) that covers the National Capital Region (NCR).				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	7	5	48	Not Met
<p><b>Description:</b> The National Capital Region Aviation Branch (NCRAB) was established close to the center of the area identified as the highest risk for terrorist attack – the Nation’s Capital. This area is known as the Flight Restricted Zone (FRZ) and has a radius of 15 miles (more than 700 square miles). A secondary parameter, called the Air Defense Identification Zone (ADIZ), is an outer ring around the FRZ that surrounds Washington, D.C., and covers more than 3,000 square miles. The primary goal of NCRAB is to protect and safeguard the restricted airspace within the FRZ against terrorist attacks. NCRAB’s second goal and responsibility is to prevent possible threats from penetrating into the outer ring of the restricted airspace by detecting and intercepting unauthorized aircraft prior to entering the ADIZ. The systematic approach to providing airspace security uses aircraft, radar data and other information to access air traffic for potential threats. This is an integrated effort by Air and Marine Operations (AMO), along with other federal, state and local law enforcement agencies, focused on detecting and responding to airborne threats against the Nation’s Capital. Since the Nation’s Capital has been identified as being the area of highest risk for terrorist attack, this measure evaluates the aviation enforcement presence over the FRZ.</p> <p>AMO’s goal to reduce the number of unauthorized penetrations into the FRZ is based on the threat assessment and urgency to provide an aviation enforcement presence at the center of the Nation’s Capital. AMO’s current capability to secure the airspace over the Nation’s Capital supports our goals of Prevention and Protection. AMO aircrafts are on continual alert at NCRAB for immediate response to intercept unauthorized penetrations within the ADIZ and interdict potential terrorist attacks. To increase the effectiveness of airspace security over the Nation’s Capital, we will modernize our aircraft fleet, improve radar and communications technology, and expand our capacity to support other federal, state and local law enforcement agencies.</p> <p>The official number of unauthorized penetrations is taken from flight standards provided by the Federal Aviation Administration. However, AMO inputs and extracts data from the AMO Operations Reporting System. These data are reviewed and approved by supervisors on a daily basis and their reliability has been reviewed by outside agencies.</p> <p><b>Explanation of Fiscal Year 2004 Results:</b> AMO was tasked to assist with the protection and enforcement of restricted airspace over the Nation’s Capital in January 2003. At that time AMO established a temporary base, the NCR, and set strict performance goals based on the resources required to accomplish this mission. AMO supports this effort by rotating aircraft and crews from their home branches throughout the United States. FRZ performance will occasionally falter until permanent facilities can be obtained, more aircraft can be procured and additional personnel are hired or transferred to support this effort.</p> <p>Many of the unauthorized penetrations into the FRZ have been identified as privately owned aircraft registered in the Washington, D.C. area. These pilots were unaware of the newly assigned restricted airspace. In addition, many of the penetrations are simply due to radio frequency and transponder code changes by authorized commercial or military aircraft prior to vacating the FRZ.</p> <p><b>Recommended Action:</b> AMO has received part of the necessary funding needed to support the NCR. Combined with continued financial support for additional resources (permanent facilities, operational equipment, aircraft and personnel) and the Outreach Program, AMO anticipates the number of unauthorized penetrations will decrease significantly. The additional manpower will not only operate aircraft, but also support the AMO public awareness program known as Outreach. Through the Outreach Program, AMO personnel will visit small airports to ensure accurate information is disseminated appropriately. Additional efforts are also being made to educate other federal, state and local enforcement aviation institutions regarding proper communication procedures while authorized within the FRZ.</p>				

# Performance Information

U.S. Immigration and Customs Enforcement (ICE) – Detention and Removal Program				
<b>Performance Goal:</b>				
Remove 100 percent of removable aliens.				
Objectives Supporting: 2.2				
<b>Performance Measure:</b>				
Number of final order removals divided by the number of final orders issued.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	61%	79%	<i>Estimated - 82%</i>	<i>Estimated - Met</i>
<p><b>Description:</b> The number of final order removals in any reporting period is the number of removals of aliens from the United States that resulted from an order of removal that was issued by an Immigration Judge or ICE under its statutory authority. The number of removals does not include expedited removals or aliens with verified departures under a grant of voluntary departure. It does include aliens originally placed in expedited removal who claimed credible fear of persecution if returned to their country of origin or who claimed legal status in the United States and, in each case, were then processed under removal proceedings. The number of final orders of removal issued includes all executable orders of removal issued by either an Immigration Judge or ICE during the reporting period. Removal orders that are not executable include orders issued to aliens with temporary protective status, orders issued to aliens who are incarcerated in state or federal prison (unless they are released by the end of the reporting period) and orders issued to aliens from countries that do not cooperate in the issuance of travel documents: Cuba, Laos and Vietnam.</p> <p>Since the numerator may include aliens who were removed during the reporting period whose order of removal was issued in some prior reporting period, the performance measure could exceed 100 percent and must exceed 100 percent in order to reduce the backlog of unexecuted (but executable) orders of removal.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> The Office of Detention and Removal's (DRO) adherence to ICE's strategic plan, <i>Endgame (2003-12)</i>, helped us meet the Department's target. DRO achieved economies of scale by means of the Joint Prisoner &amp; Alien Transportation System (JPATS), charter flights and centralized ticketing. Expansion of fugitive operations and use of stipulated orders, when appropriate, also contributed to the improvement over fiscal year 2003. Results are estimated due to the length of time to collect and compile results. Results will be reported in the fiscal year 2005 <i>Performance and Accountability Report</i>.</p>				

# Performance Information

U.S. Immigration and Customs Enforcement (ICE) – Office of Investigations Program				
<b>Performance Goal:</b>				
Protect the American people, property and infrastructure from foreign terrorists, criminals and other people and organizations who threaten the United States, by increasing the percentage of cases that have an enforcement consequence.				
<b>Objectives Supporting:</b> 2.2				
<b>Performance Measure:</b>				
Percent of completed cases, which have an enforcement consequence.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	57.2%	58.7%	43.8%	Not Met
<p><b>Description:</b> This is a federal law enforcement outcome measure that demonstrates the effectiveness and efficiency of investigative casework by comparing completed cases with the tangible results of arrest, indictment, conviction, seizure or penalty, achieved by those cases. The higher the percentage, the more efficient the investigative casework. Removing criminals and terrorists and their assets from U.S. society protects Americans and their property by preventing further criminal acts through deterrence and reduction of criminal resources. The law enforcement statistics used are reported by the Treasury Enforcement Communications System (TECS), ICE's investigative casework database.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> Our target was based on the fiscal year 2003 accumulation of immigration and customs law enforcement statistics from two separate reporting systems. The mandate to enter all ICE law enforcement data on the TECS database began October 1, 2003. The complete transition of ICE agents entering law enforcement data on TECS was not complete until the third quarter of fiscal year 2004. Since TECS was originally a trade law investigative database, and not all immigration law enforcement statistics directly cross over for entry, this performance measure, as currently defined and reported from one system will not provide the same representation of immigration enforcement results in fiscal year 2004 as had been reported in previous years on a separate system. The calculated actual performance percentage did increase in each quarter of fiscal year 2004.</p>				
<p><b>Recommended Action:</b> We are examining the performance results collected from all closed cases from immigration and trade law enforcement to determine what changes, if any, are necessary to make our performance measure to best represent ICE investigations, while providing an ambitious target. Fiscal year 2005 will be the first full year of standardized reporting.</p>				



## Strategic Goal 3 – Protection

The focus of this strategic goal is to safeguard our people and their freedoms, critical infrastructure, property and the economy of our nation from acts of terrorism, natural disasters and other emergencies. The objectives established by the Department to achieve this goal are provided below.

**Objective 3.1** Protect the public from acts of terrorism and other illegal activities.

We must not let the threat of terrorism alter the American way of life. We identify and disrupt terrorists and criminals before they threaten the well-being of American citizens. Our investigative efforts focus on identifying the tools and conveyances used by terrorists and criminals, and apprehending suspect individuals. Through our partnerships with other agencies, and through our own efforts, we coordinate and apply knowledge and skills acquired through years of practical use in drug interdiction and airspace security to remain at the forefront of global law enforcement and counter-terrorism efforts. We ensure that our nation's shipping routes do not become avenues of entry for terrorists, their weapons or supplies. We will conduct national and international investigations to gather evidence of violations of U.S. laws, and prevent terrorist groups from obtaining sensitive weapons of U.S. origin.

**Objective 3.2** Reduce infrastructure vulnerability from acts of terrorism.

We lead and coordinate a national effort to secure America's critical infrastructure. Protecting America's critical infrastructure is the shared responsibility of federal, state, local and tribal governments, in active partnership with the private sector, which owns approximately 85 percent of the Nation's critical infrastructure. Using the results of modeling, simulation and analytic tools to prioritize our efforts, we implement standardized and tiered protective measures that are rapidly adjustable to counter various levels of threat. We coordinate the implementation of a comprehensive integrated national plan to protect both our physical and cyber infrastructure and significantly reduce vulnerabilities, while ensuring that government at all levels enables, and does not inhibit, the private sector's ability to carry out its protection responsibilities.

**Objective 3.3** Protect against financial and electronic crimes, counterfeit currency, illegal bulk currency movement and identity theft.

A principal component of homeland security is economic security, including protection of the Nation's currency and financial payment systems. The Department participates in task forces and other joint operations with the financial community and with federal, state, local and tribal law enforcement partners to investigate crimes targeting the stability, reliability and security of financial systems. To prevent, detect and investigate various forms of electronic crimes, we operate a nationwide network of Electronic Crimes Task Forces. We maintain an overseas investigative presence where criminal groups engage in the counterfeiting of U.S. currency and other financial crimes targeting the Homeland. International drug traffickers steal \$20 billion to \$30 billion annually from the U.S. economy. Much of these illegal funds are shipped out of the United States as bulk currency. This weakens our economy and strengthens the ability of the international drug traffickers to destabilize the governments of their countries by bribery or to finance terrorist activities. We investigate, identify and seize outbound shipments to take away this ability to fund illegal activities.

**Objective 3.4** Secure the physical safety of the President, Vice President, visiting world leaders and other protectees.

We protect the Nation's leaders and visiting dignitaries from all threats, including terrorists and other criminals; natural, technological and man-made emergencies; and preventable accidents. We coordinate with military, federal, state, local and tribal law enforcement organizations to ensure their safety. We evaluate information received from law enforcement and intelligence agencies and other sources to investigate, apprehend and prosecute, if appropriate, those who pose a threat. We ensure that protectees have a safe environment in which to continue their operations in the event of any threat contingency.

# Performance Information

**Objective 3.5** Ensure the continuity of government operations and essential functions in the event of crisis or disaster.

We partner with other federal departments and agencies to ensure the continuous operation of the Federal Government and to secure the survival of an enduring constitutional government in times of attack, national emergency or disaster. We provide alternative facilities, equipment and communications capabilities to ensure that the Federal Government is capable of performing its essential functions and that the Nation will continue to be governed as set forth in the U.S. Constitution.

**Objective 3.6** Protect the marine environment and living marine resources.

We partner with other nations; federal agencies; state, local and tribal governments; and responsible sectors of the maritime industry to ensure the quality of our marine resources are protected. We encourage, pursue and enforce bilateral and regional agreements with other governments to ensure that the world's living marine resources are properly maintained and managed. The ability to use unpolluted waters for transportation and recreation is vital to the safety of our citizens and the economy of the Nation; we work to ensure compliance with existing regulations and consider others that may be required to protect our marine environment. We maintain an uncompromising commitment to the stewardship of our national living marine resources through the highest caliber enforcement of fisheries laws and regulations supporting the national policy.

**Objective 3.7** Strengthen nationwide preparedness and mitigation against acts of terrorism, natural disasters and other emergencies.

The best way to protect against the effects of harmful incidents is to be prepared. Preparedness and mitigation are important elements in reducing the impacts of acts of terror and other disasters. We ensure all levels of public safety and emergency management are capable of rapid and effective response by establishing a unified, capabilities-based preparedness strategy incorporating all-hazards assessments, training, exercises and assistance for federal, state, local and tribal governments, first responders and communities. We establish, implement and evaluate capabilities through a system of national standards, mutual aid systems and credentialing protocols, and supply technologies for rapid and interoperable communications, personal protection and incident management. We have implemented and sustained a national citizen preparedness movement that includes private-sector involvement. We have expanded the Nation's community risk management capabilities and reduced the Nation's vulnerability to acts of terrorism and other disasters through effective vulnerability assessments and risk management programs.

Detailed information concerning actual performance during fiscal year 2004 to achieve this goal is provided below.

# Performance Information

## Emergency Preparedness and Response (EP&R) – Mitigation Program

### Performance Goal:

*As stated in the fiscal year 2004 Annual Performance Plan:*

Attain all annual targets in the areas of potential property losses, disaster and other costs avoided; improved safety of the U.S. population through availability of accurate flood risk data in Geographic Information System (GIS) format; and number of communities taking or increasing action to reduce their risk of natural or man-made disaster.

*As enhanced to better reflect program performance:*

By fiscal year 2009, the Federal Emergency Management Agency (FEMA) will avoid potential property losses, disaster and other costs totaling \$10.5 billion over five years; improve the safety of 95 percent of the population through availability of accurate flood risk data; and reduce the risk of natural or manmade disaster in more than 2,500 communities nationwide.

Objectives Supporting: 3.7

### Performance Measure:

(A) Potential property losses, disaster and other costs avoided; (B) Percentage of the population whose safety is improved through availability of accurate flood risk data in GIS format; (C) Number of communities taking or increasing action to reduce their risk of natural or man-made disaster.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
<b>Target/Actual Indicator:</b>	(A) \$1.1 billion (B) 5% (C) 750	(A) \$1.949 billion (B) 10% (C) 500	(A) \$1.949 billion (B) 15% (C) 735	Met

**Description:** This measure represents an estimate of costs from potential damages, losses and other costs that have been avoided as a result of FEMA's floodplain management and mitigation grant activities in communities across the country. The measure also includes an element representing the cumulative percentage of communities covered by updated digital flood risk data, which replaces old-fashioned paper flood maps, as of the end of the fiscal year, and an element that tracks the total number of communities that have taken action or increased their efforts to mitigate against potential losses from natural or man-made hazards.

**Explanation of Fiscal Year 2004 Results:** In fiscal year 2004, mitigation actions undertaken by states and communities through FEMA's floodplain management and mitigation grant activities resulted in an estimated \$1.949 billion in costs avoided. This performance measure element represents the dollar value of the losses that have been avoided because actions have been taken, before disaster strikes, to prevent or prepare for floods and other hazards. FEMA also increased the percentage of the population covered by updated flood hazard data from 5 percent in 2003 to 15 percent in 2004, and worked with more than 700 communities to initiate or increase current mitigation efforts.

# Performance Information

## Emergency Preparedness and Response (EP&R) — National Security Program

### Performance Goal:

By fiscal year 2009, all federal departments and agencies will have fully operational Continuity of Operations (COOP) and Continuity of Government (COG) capabilities.

**Objectives Supporting:** 3.5

### Performance Measure:

Percentage of (A) federal departments and agencies with fully operational Continuity of Operations (COOP) capabilities and (B) fully operational Continuity of Government (COG) capabilities.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
Target/Actual Indicator:	N/A	(A) 80% (B) 75%	(A) 70% (B) 75%	Not Met

**Description:** The Federal Emergency Management Agency (FEMA) works with federal departments and agencies to develop and exercise plans that ensure the continuation of federal operations and the continuity and survival of an enduring constitutional government. FEMA collects the results of exercises and self-assessments to measure the percentage of departments and agencies that have in place the necessary plans and capabilities.

**Explanation of Fiscal Year 2004 Results:** Based on the federal department and agency participation in the Continuity of Operations (COOP) exercise Forward Challenge and Continuity of Government Condition (COGCON) status reporting requirements, FEMA was able to verify that 70 percent had COOP capability. The Readiness Reporting System (RRS), which was expected to be operational in fiscal year 2004, would have provided us the tool to better document department and agency capability. Once operational, we will have better data from the federal community. In 2004, FEMA also partnered with other federal departments and agencies to ensure their ability to play a role in maintaining the Nation's constitutional form of government in the event of disaster or national emergency. In conjunction with its partners, the agency was able to confirm that three-quarters meet the criteria for a fully operational Continuity of Operations capability.

Data for fiscal year 2003 cannot be obtained. The Department's ability to collect reliable data on this measure began in fiscal year 2004.

**Recommended Action:** As a result of a Homeland Security Council initiative to provide improved oversight for government-wide COOP, and because of a strong commitment by departments and agencies to be prepared for a COOP event, we believe our ability to evaluate and assess government-wide COOP capabilities will be greatly enhanced in fiscal year 2005. We will also improve our data collection effort to verify COOP capabilities of federal departments and agencies. With that in mind, we will continue to provide leadership to the COOP and COG communities to ensure the survival of an enduring constitutional government through improved planning guidance and rigorous training and testing.

# Performance Information

## Emergency Preparedness and Response (EP&R) — Preparedness Program

### Performance Goal:

*As stated in the fiscal year 2004 Annual Performance Plan:*

By fiscal year 2009, 100 percent of jurisdictions (state, tribal and county) complete self-assessments (validated through random independent verification) using mutually agreed upon baseline performance standards for responding to and recovering from all hazards, including terrorist incidents and weapons of mass destruction.

*As enhanced to better reflect program performance:*

By fiscal year 2009, the Federal Emergency Management Agency (FEMA) will assess targeted percentages of state, tribal and county jurisdictions under the National Emergency Management Baseline Capability Assessment Program; implement the National Incident Management System; increase to 90 percent the proportion of respondents reporting that they are better prepared to deal with disasters and emergencies as a result of the FEMA training they received; and reduce by 30 percent the rate of loss of life from fire-related events from the 2000 baseline of 3,809.

### Objectives Supporting: 3.7

### Performance Measure:

*As stated in the fiscal year 2004 Annual Performance Plan:*

Non-cumulative percentage of states assessed under the National Emergency Management Baseline Capability Assessment Program.

*As enhanced to better reflect program performance:*

Non-cumulative percentage of (A1) state, (A2) tribal and (A3) county jurisdictions assessed under the National Emergency Management Baseline Capability Assessment Program (NEMB-CAP); (B) National Incident Management System (NIMS); (C) percentage of respondents reporting that they are better prepared to deal with disasters and emergencies as a result of the training they received; (D) percentage reduction in the rate of loss of life from fire-related events from the 2000 baseline of 3,809.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
<b>Target/Actual Indicator:</b>	(A) 25%	(A1) 36% (revised from 50%) (A2) 0 (A3) 0 (B) N/A (C) 78% (D) 15%	(A1) 30% (A2) 0 (A3) 0 (B) N/A (C) 83% (D) 4.2%	Not Met

**Description:** This performance measure includes indicators of FEMA's success in assessing baseline emergency management capability among states (with tribal and county jurisdictions assessed in later years). The target for states' capability was lowered during the course of fiscal year 2004, from 50 percent to 36 percent, reflecting the re-direction of funds to support the creation of the NIMS Integration Center. This measure also includes elements tracking success in implementing the NIMS; training of the Nation's firefighters, emergency managers and others with key emergency responsibilities; and success in reducing deaths caused by fire and fire-related events, through work done by the FEMA's U.S. Fire Administration and its fire service partners nationwide.

This measure was changed from what was originally submitted in the fiscal year 2005 *President's Budget Overview*. The measure was modified by incorporating elements reflecting disaster training and nationwide reduction of fire deaths into the original measure. It was changed to present a more representative measure of the preparedness program. An element reflecting implementation of the NIMS was intended but was not developed in time for measurement in 2004.

# Performance Information

**Explanation of Fiscal Year 2004 Results:** In 2004, FEMA worked with states to assess their emergency management capability through FEMA's NEMB-CAP. No tribal or county jurisdictions were targeted for assessment in 2004. The 2004 target for assessment of states was originally set at 50 percent, but was revised downward to 36 percent after the agency shifted funding for this activity to support implementation of NIMS. NIMS is a comprehensive incident response system, developed by the Department at the request of the President. Beginning in fiscal year 2005, a target will be included in this performance measure to track NIMS implementation. In fiscal year 2004, through FEMA's Emergency Management Institute and the National Fire Academy, the agency trained nearly 280,000 of the Nation's response personnel, officials and others with key emergency responsibilities. Of those who chose to respond to a post-training survey, 83 percent indicated that the training they received had helped better prepare them for their emergency duties. Through the U.S. Fire Administration, also part of FEMA, the agency worked to address the national fire problem, helping to reduce the rate of fire- and fire-related deaths nation wide.

**Recommended Action:** FEMA did not meet its target on two elements of its preparedness program performance measure in fiscal year 2004. The first element, measuring state emergency management capability, fell short due to reprogramming of resources. The target was revised downward accordingly, from 50 percent to 36 percent, but remaining resources yielded only a 30 percent increase by year's end. The second element unmet for this measure in 2004 was reduction in fire-related events. FEMA, through the U.S. Fire Administration (USFA), partners with fire services across the country to implement various strategies, including education and awareness, to help people protect themselves and their property from the threat of fire. While FEMA and USFA, along with the Nation's fire services, remain committed to this effort, actual fire-related deaths can fluctuate greatly from year to year, and any strategy to reduce the casualty rate is only successful over time. USFA and FEMA will continue to work with fire services to refine and target their strategies, and to continue to lead the effort to save lives.

## Information Analysis and Infrastructure Protection (IAIP) – National Communications System (NCS) Program

### Performance Goal:

In partnership with industry and government, ensure immediate interoperable and assured National Security/Emergency Preparedness (NS/EP) converged telecommunications in all situations.

### Objectives Supporting: 3.2

### Performance Measure:

Call completion rate during network degradation.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY 2004 Results
Target/Actual Indicator:	N/A	Baseline	98.4%	Met

**Description:** NCS established the Government Emergency Telecommunications Service (GETS) to meet White House requirements for a survivable, interoperable, nation wide voice band service for authorized government users engaged in NS/EP missions. GETS provides emergency access and specialized processing in local and long-distance telephone networks. GETS also ensures users a high rate of successful call completion during network congestion or outages arising from natural and man-made disasters. AT&E data reports are used to track GETS call completion rates. AT&T is the only carrier providing data at this time on GETS call completion and accounts for 75 percent of GETS calls.

**Explanation of Fiscal Year 2004 Results:** The call completion rate for fiscal year 2004 is 98.4 percent. The fiscal year fourth quarter 2004 data reflect a lower call completion rate due to the network conditions during the hurricanes that hit the east coast and the gulf coast late August/early September.

# Performance Information

Information Analysis and Infrastructure Protection (IAIP) – National Plans and Strategies (NPS) Program				
<b>Performance Goal:</b>				
Seventy-five percent of national strategies are implemented within year of issuance of plan in which they are outlined.				
<b>Objectives Supporting:</b> 3.2				
<b>Performance Measure:</b>				
Percentage of national strategies implemented within year of issuance of plan in which they are outlined.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY 2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	Established NIPP Plan	Met
<p><b>Description:</b> As required by the <i>Homeland Security Act</i>, an integrated national plan and cross-sector contingency plan must be developed, monitored for implementation and reviewed for progress. Consistent with the <i>Homeland Security Act</i>, <i>Homeland Security Presidential Directive Seven</i> directs the Department to produce a comprehensive, integrated National Plan for critical infrastructure and key resources to outline national goals, objectives, milestones and key initiatives within one year of the issuance of the directive, December 17, 2004. IAIP/IP has been directed to develop and implement this report, the National Infrastructure Protection Plan (NIPP).</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> In fiscal year 2004, a draft of the NIPP was completed. The NIPP will be finalized in fiscal year 2005. Implementation of certain aspects of infrastructure protection framework as articulated by the NIPP began in fiscal year 2004, including the development and implementation of sector-specific plans for infrastructure protection and federal and private-sector involvement. Broader implementation is expected in fiscal year 2005, and full implementation is expected in fiscal year 2006.</p>				

# Performance Information

<b>Information Analysis and Infrastructure Protection (IAIP) – Remediation and Protective Actions Program/ Outreach and Partnership Program</b>				
<b>Performance Goal:</b>				
Recommended protective actions implemented for 65 percent of first-tier priority critical infrastructure components or key assets.				
<b>Performance Goal:</b>				
Recommended protective actions implemented for 65 percent of first-tier priority critical infrastructure components or key assets.				
<b>Objectives Supporting:</b> 3.1, 3.2 (Both programs)				
<b>Performance Measure:</b> (Both programs)				
Percentage of recommended protective actions implemented (per fiscal year).				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY 2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	20%	<i>Estimated - 30%</i>	<i>Estimated - Met</i>
<p><b>Description:</b> Protective actions are recommended based on identified infrastructure vulnerabilities that are either site or sector/segment specific. Protective actions are identified and recommended for specific sites during site assistance visits and for specific sectors and segments in Common Characteristics of Vulnerability (CCV) Reports and in Potential Indicators of Terrorist Activity (PITA) Reports. Additionally, specific vulnerabilities and recommendations are identified during site assessment for national security special event operations. The implementation of the protective measures, as recommended by these activities, involves both the private sector, which is responsible for inside-the-fence security, as well as the local law enforcement community, which is charged with the safety and protection of the community. The Department works in concert with both entities to provide assistance for implementing the required protective measures. For example, the Department provides training courses to ensure that both the private and public security forces have the knowledge they need to implement protective measures that are in their purview. Additional protective measures, such as lighting, fencing or barriers, are implemented by the site owner/operator in response to Department site visits or as a result of the information provided in the CCV or PITA. The Department has also implemented a pilot program of web-cam surveillance to extend the buffer zone for enhanced safety of the community surrounding the most critical of sites. This pilot program is designed to determine the cost effectiveness of this particular protective measure, and the results will influence future efforts. Finally, protective measures are also identified and recommended via the Buffer Zone Protection Plan (BZPP) program, which includes distribution of a standard template, BZPP preparation training and assistance in BZPP preparation to local law enforcement entities. Local law enforcement entities can, and have, implemented protective measures recommended in the BZPPs when there are available resources.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> For fiscal year 2004, the percentage of first-tier infrastructure sites and facilities at which protective measures and consequence reduction strategies were implemented is estimated to be 30 percent. This figure was derived as follows: (1) The first-tier assets are those assets identified in fiscal year 2004 as having the most catastrophic consequence of attack. (This includes the chemical and nuclear sites identified in fiscal year 2004 for a total of 388 sites.) (2) 122 sites that have had vulnerabilities identified and protective actions identified for them. (This figure includes the number of BZPPs prepared for the first-tier assets, the number of site assistance visits conducted at chemical facilities and nuclear plants, and the web cam surveillance and warning pilots established at the most critical chemical sites.) Additional protective measures were implemented across the Nation as a direct result of the training efforts the Department's Information Assurance and Infrastructure Protection Directorate has undertaken to increase local and private enforcement personnel awareness of threat indicators; however, those measures are difficult to track and are not included in this figure.</p>				



# Performance Information

Federal Law Enforcement Training Center (FLETC) – International Law Enforcement Training Program				
<b>Performance Goal:</b>				
To deploy international agents and officers with the knowledge and skills to fulfill their law enforcement responsibility and to help foreign nations fight terrorism.				
<b>Objectives Supporting:</b> 1.1, 1.2, 2.3, 2.4, 3.1 and 3.3				
<b>Performance Measure:</b>				
Percentage of students who express excellent or outstanding on the Student Quality of Training Survey (SQTS).				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	64.1%	Met
<p><b>Description:</b> This performance measure is an indicator of the degree of training quality received based on student feedback. The SQTS is a formal means to identify opportunities for immediate improvements and updates to ensure that the students receive the right skills and knowledge, presented in the right way and right time. The SQTS is used to determine the level of student satisfaction for this measure. Students respond using a modified 5-point Likert scale (Outstanding, Excellent, Good, Satisfactory and Poor). The ratings of outstanding and excellent are combined to form the measure of excellence to which the center aspires.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> FLETC is committed to providing the best training possible to all law enforcement organizations that it serves by establishing and maintaining a robust process to examine law enforcement trends and emerging issues. FLETC collaborates with partner organizations to assess, validate and improve each program as they are constantly evolving and being refined in response to emerging issues such as changes in the laws, mission emphasis and partner organization requirements.</p>				

Management Directorate – Counterterrorism Fund Program				
<b>Performance Goal:</b>				
Operating entities of the Department and other federal agencies are promptly reimbursed for authorized unforeseen expenses arising from the prevention of or response to terrorist attacks.				
<b>Objectives Supporting:</b> 1.1, 1.2, 1.3, 1.4, 2.3, 2.4, 3.1, 3.2, 3.5, 5.1 and 5.2				
<b>Performance Measure:</b>				
Percentage of qualifying reimbursements that are made within established standards of timeliness and proper authorization.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	100%	Met
<p><b>Description:</b> The Counterterrorism Fund Program ensures that entities of the Department and other federal agencies are properly and promptly reimbursed for authorized expenses that arise from the prevention of or response to terrorist attacks. Payments from the Counterterrorism Fund must be appropriately made in a timely manner. Appropriate payments are defined as those that are properly approved and forwarded to the Department's Chief Financial Officer (CFO). Payments are timely when they meet the acquisition lead-time standard of 30 days, as defined in the <i>Policy and Procedures Memorandum No. 1.2</i>. This information is collected from financial records, which are maintained by the Department's CFO. The percentage of qualifying reimbursements that are made from the Counterterrorism Fund are calculated based on the number of payments made appropriately and timely, divided by the total number of payments.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> The fiscal year 2004 actual included one payment from the Counterterrorism Fund. The payment was properly approved and forwarded to the CFO and met the lead time of 30 days.</p>				

# Performance Information

State and Local Government Coordination and Preparedness (SLGCP) – Technical Assistance Program				
<b>Performance Goal:</b>				
Enhance the ability of state and local jurisdictions to develop, plan and implement a comprehensive program for Weapons of Mass Destruction (WMD) preparedness.				
<b>Objectives Supporting:</b> 3.7				
<b>Performance Measure:</b>				
Percentage of fulfilled request from jurisdictions seeking to create an effective partnership.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	100%	Met
<p><b>Description:</b> The Technical Assistance Program provides expert, jurisdiction-specific, problem-solving assistance to state and local jurisdictions to enhance their capacity and preparedness to prevent, deter and respond to terrorism incidents. It provides a vast array of individually tailored technical assistance to public and private partnerships in which local business and industry joined with government officials to build and exercise preparedness plans. This measure determines the success of fulfilling requests for technical assistance received from state and local jurisdictions. The source of data is applications from jurisdictions for technical assistance.</p> <p><b>Explanation of Fiscal Year 2004 Results:</b> The results were attained because grantees were responsive to jurisdictional needs and all of the technical assistance applications were complete. This program is successful in enhancing state and local jurisdictions' ability to prevent, deter and respond to acts of terrorism involving weapons of mass destruction. Through the use of subject matter experts, jurisdictions have been receiving specialized assistance that is tailored to their individual circumstances and needs.</p>				

State and Local Government Coordination and Preparedness (SLGCP) – Fire Act Program				
<b>Performance Goal:</b>				
<p><i>As stated in the fiscal year 2004 Annual Performance Plan:</i> By fiscal year 2005, more than 4,600 firefighters will receive training and approximately 300 departments will be able to replace fire-fighting vehicles to enhance their ability to respond to fires and other disasters and protect the public and themselves from injury, loss of life and property.</p> <p><i>As enhanced to better reflect nearer term program performance:</i> By fiscal year 2009, fire departments of all types (paid, volunteer and combination) and fire departments serving all communities (rural, urban and suburban) will be better trained and equipped to respond to fires and other disasters for protection of the public and themselves from injury, loss of life and property.</p>				
<b>Objectives Supporting:</b> 3.7				
<b>Performance Measure:</b>				
Number of fire department personnel formally trained in skills related to firefighting and fire-related activities.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	34,261	Met
<p><b>Description:</b> This measure evaluates the number of firefighters trained to better protect the health and safety of the public, and firefighting personnel against fire and fire-related hazards by providing direct assistance, on a competitive basis, to fire departments of a state or tribal nation. Reported results data are taken from training courses for fire departments.</p> <p><b>Explanation of Fiscal Year 2004 Results:</b> The measure shows that 34,261 firefighters were trained with the skills to fight against fire-related hazards. This represents more than 40 percent of firefighting personnel were trained and, therefore, will be able to better protect the safety of the public.</p>				

# Performance Information

## State and Local Government Coordination and Preparedness (SLGCP) — National Exercise Program

### Performance Goal:

*As stated in the fiscal year 2004 Annual Performance Plan:*

By fiscal year 2009, under the Top Officials (TOPOFF) Series, state and local homeland security agencies will have had the opportunity to test the capacity of government agencies to prevent and/or respond to and recover from multiple large-scale attacks as demonstrated by successful achievement of exercise objectives that were met. By fiscal year 2009, under the state and local exercise grant program: (1) 50 percent of jurisdictions with populations of more than 500,000 will have exercised SLGCP's common suite of combating terrorism (CT) scenarios and will have demonstrated performance within the expected range for at least 70 percent of critical homeland security tasks; (2) 25 percent of jurisdictions with populations of more than 100,000 will have exercised SLGCP's common suite of CT scenarios and will have demonstrated performance within the expected range for at least 60 percent of critical homeland security tasks; (3) 10 percent of jurisdictions with populations of more than 500,000 will have exercised SLGCP's common suite of CT scenarios and will have demonstrated performance within the expected range for at least 50 percent of critical homeland security tasks; and (4) jurisdictions that participated in exercises will have implemented at least 50 percent of the actions specified in the Jurisdictional Improvement Plans developed to address recommendations from the After-Action Report.

*As simplified to better reflect program performance in the short- and long-term results:*

The goal of the state and local exercise grant program is to assist states and local jurisdictions to test the capacity to perform critical tasks required to prevent, respond to or recover from a terrorist attack. The long-term goal is for all jurisdictions to be able to perform at least 90 percent of required tasks to objective standards.

### Objectives Supporting: 3.7

### Performance Measure:

Percent of jurisdictions that demonstrate performance of at least 90 percent of critical tasks within the expected range in a cycle of exercises using the Department/SLGCP suite of scenarios

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
Target/Actual Indicator:	N/A	Scenarios and Metrics Developed	Estimated - 20%	Estimated - Met

**Description:** This performance measure provides an objective basis for assessing preparedness through the evaluation of critical tasks performance during exercises or real events. It evaluates how prepared the Nation is against all hazards. It will give us data and information on the ability of state and local first responders to respond to, prevent and recover from multiple large-scale attacks. The critical tasks are those on the Universal Task List, which provides a common task-based language and reference system and encourages a systematic approach to planning and training. The source of the reported data is After-Action Reports. After-Action Reports are made after exercises and real-world events and include analysis of task performance and recommendations for improvement.

**Explanation of Fiscal Year 2004 Results:** The estimated results were attained by defining 187 critical tasks out of about a 1,500 universal list of first-responder preparedness critical tasks that need to be performed in order to measure preparedness. The Department is in the process of defining capabilities to accomplish these tasks. Actual final results will be available in fiscal year 2006. The TOPOFF Series of tests measure the capacity of federal, state and local homeland security agencies to prevent and/or respond to and recover from multiple large-scale attacks. Lessons learned and recommendations from TOPOFF 2 will be implemented in fiscal year 2005, as planning and exercises are implemented for TOPOFF 3, which will culminate with the full-scale TOPOFF 3 exercise in May 2006. A common suite of exercise scenarios and the required tasks that need to be performed to respond to them were under development in fiscal year 2004 and performance metrics will be developed in fiscal years 2004 and 2005. They will be tested/validated in fiscal years 2005 and 2006 and fully implemented by the end of fiscal year 2006.

# Performance Information

## State and Local Government Coordination and Preparedness (SLGCP) — State Formula Grant Program

### Performance Goal:

*As stated in the fiscal year 2004 Annual Performance Plan:*

By fiscal year 2009, under the State Formula Grant Program, state and local homeland security agencies have received resources and assistance and have implemented state strategies to enable them to perform critical tasks required to prevent or respond to a terrorist attack. Overall response capability nationally will be enhanced significantly, and a new initiative to prevent/deter terrorist attacks domestically will be institutionalized for state and local law enforcement agencies.

*As enhanced to better reflect program-intended results:*

Enhance the capacity of state and local homeland security agencies to perform critical tasks required to prevent or respond to a terrorist attack. The long-term goal is for all jurisdictions to be able to perform at least 90 percent of required tasks to objective standards.

**Objectives Supporting:** 3.7

### Performance Measure:

Percent of jurisdictions with populations of more than 500,000 that demonstrate performance of at least 90 percent of critical tasks within the expected range in a cycle of exercises using the Department/SLGCP suite of scenarios.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
Target/Actual Indicator:	N/A	Scenarios and Metrics Developed	Estimated - 20%	Estimated - Met

**Description:** This performance measure provides an objective basis for assessing preparedness through the evaluation of critical task performance during exercises or real events. It evaluates how prepared the Nation is against all hazards. This measure is a valid outcome-oriented measure of progress toward achievement of the performance goal because it provides data and information on the ability of state and local first responders to respond to, prevent and recover from multiple large-scale attacks. A Universal Task List provides a common task-based language and reference system and encourages a systematic approach to planning and training. The source of the reported data is After-Action Reports. After-Action Reports are made after exercises and real-world events and include analysis of task performance and recommendations for improvement.

**Explanation of Fiscal Year 2004 Results:** The estimated results were attained by defining 187 critical tasks out of about a 1,500 universal list of first responder preparedness tasks that need to be performed in order to measure preparedness. We are in the process of defining capabilities to accomplish these tasks. Actual results will be available in fiscal year 2006. A common suite of exercise scenarios and the required tasks that need to be performed to respond to them, were under development in fiscal year 2004, and performance metrics will be developed in fiscal years 2004 and 2005. They will be tested/validated in fiscal years 2005 and 2006 and fully implemented by the end of fiscal year 2006.

# Performance Information

## State and Local Government Coordination and Preparedness (SLGCP) — State and Local Training Program

### Performance Goal:

As stated in the fiscal year 2004 Annual Performance Plan:

In fiscal year 2005, more than 170,000 homeland security professionals will receive training through more than 40 courses designed to enhance the capacity to prevent, respond to or recover from acts of terrorism. The ability to reach more homeland security professionals will be enhanced through the implementation and expansion by having awareness training conducted at the state and local levels.

As enhanced to better reflect program long- and short-term outcomes:

By 2009, all state and local jurisdictions will have the capability to prevent, deter, respond to and recover from acts of terrorism. Refine SLGCP's capability to continuously identify and address emerging training needs. Expand cadre of subject matter experts.

**Objectives Supporting:** 3.7

### Performance Measure:

Number of homeland security professionals trained.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
<b>Target/Actual Indicator:</b>	N/A	125,000	338,105	Met

**Description:** This reports the number of homeland security professionals trained and evaluates the ability for first responders to be better prepared to respond to acts of terrorism. It indicates progress toward achievement of the performance goal because the greater number of homeland security professionals trained will enhance our capacity as a nation to respond, prevent and recover from acts of terrorism. The data source is the more than 40 courses delivered to state and local communities.

**Explanation of Fiscal Year 2004 Results:** The results achieved the target by almost threefold. Results were higher than originally projected because more training courses have recently been added for state and locals. Training Consortium members have been strongly encouraged to enroll in more classes, and a new training program by the National Terrorism Preparedness Institute accounted for slightly more than 191,000 first responder being trained.

These results were attained by looking at the courses that first responders have taken from the SLGCP's list of certified courses from the Awareness Level and above.

### Performance Measure:

Percentage of jurisdictions with populations of more than 500,000 that demonstrate performance of at least 90 percent of critical tasks within the expected range in a cycle of exercises using the Department/SLGCP suite of scenarios.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
<b>Target/Actual Indicator:</b>	N/A	Scenarios and Metrics Developed	Estimated - 20%	Estimated - Met

**Description:** This performance measure provides an objective basis for assessing preparedness through the evaluation of critical-task performance during exercises or real events. This measure evaluates how prepared the Nation is against all hazards. This measure is a valid outcome-oriented measure of progress toward achievement of the performance goal because it will give us data and information on the ability of state and local first responders to respond to, prevent and recover from multiple large-scale attacks. The Universal Task List provides a common task-based language and reference system and encourages a systematic approach to planning and training. The source of the reported data is After-Action Reports. After-Action Reports are made after exercises and real-world events and include analysis of task performance and recommendations for improvement.

**Explanation of Fiscal Year 2004 Results:** The estimated results were attained by defining 187 critical tasks out of about a 1,500 universal list of first responder preparedness tasks that need to be performed in order to measure preparedness. We are in the process of defining capabilities to accomplish these tasks. Actual results will be available in fiscal year 2006.

# Performance Information

State and Local Government Coordination and Preparedness (SLGCP) – Urban Areas Security Initiative Program				
<b>Performance Goal:</b>				
At least 90 percent of the participating urban areas will have demonstrated performance within the expected range for at least 90 percent of critical tasks.				
<b>Objectives Supporting:</b> 3.7				
<b>Performance Measure:</b>				
Percentage of the participating urban areas that demonstrated performance within at least 90 percent of critical tasks within the expected range.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Scenarios and Metrics Developed	<i>Estimated - 20%</i>	<i>Estimated - Met</i>
<p><b>Description:</b> This performance measure provides an objective basis for assessing preparedness through the evaluation of critical task performance during exercises or real events. This measure evaluates how prepared the Nation is against all hazards. This measure is a valid outcome-oriented measure of progress toward achievement of the performance goal because it will give us data and information on the ability of State and local first responders to respond to, prevent and recover from multiple large-scale attacks. The Universal Task List provides a common task-based language and reference system and encourages a systematic approach to planning and training. The source of the reported data is After-Action Reports. After-Action Reports are made after exercises and real-world events and include analysis of task performance and recommendations for improvement.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> The estimated results were attained by defining 187 critical tasks out of about a 1,500 universal list of first responder preparedness tasks that need to be performed in order to measure preparedness. The Department is in the process of defining capabilities to accomplish these tasks. Actual results will be available in fiscal year 2006.</p>				

# Performance Information

## State and Local Government Coordination and Preparedness (SLGCP) – Evaluation Program

### Performance Goal:

By 2009, SLGCP will have implemented at least 75 percent of accepted program-related recommendations from program evaluations, and state and local jurisdictions will have implemented at least 50 percent of accepted recommendations from evaluations of exercises.

### Objectives Supporting: 3.7

### Performance Measure:

Percentage of jurisdictions with populations of more than 500,000 that have successfully demonstrated preparedness through the use of SLGCP's common suite of combating terrorism scenarios.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
Target/Actual Indicator:	N/A	Scenarios and Metrics Developed	Estimated - 177	Estimated - Met

**Description:** This performance measure provides an objective basis for assessing preparedness through the evaluation of critical task performance during exercises or real events. This measure is a valid outcome-oriented measure of progress toward achievement of the performance goal because it will give us data and information on the ability of state and local first responders to respond to, prevent and recover from multiple large-scale attacks. The suite of common scenarios is a planning tool that was used to identify tasks and will be used to identify and build flexible and agile, all-hazards capabilities that jurisdictions will use to exercise their plans and procedures that will require a coordinated effort across jurisdictions and levels of government to prevent, respond to and recover from the event. The source of the reported data is After-Action Reports. After-Action Reports are made after exercises and real-world events and include analysis of task performance and recommendations for improvement.

**Explanation of Fiscal Year 2004 Results:** The fiscal year 2004 estimate is the number of exercises performed by jurisdictions in fiscal year 2004. The state and local exercise division in SLGCP has conducted these exercises to support the state and local communities. After each exercise, After-Action Reports are compiled with recommendations from the evaluations of these exercises. Actual results will be available in fiscal year 2006.

# Performance Information

United States Coast Guard (USCG) – Living Marine Resources Program				
<b>Performance Goal:</b>				
By 2009, the USCG will maintain a 97 percent observed domestic compliance rate by commercial fishermen.				
<b>Objectives Supporting:</b> 1.1 and 3.6				
<b>Performance Measure:</b>				
Percent of fishermen complying with federal regulations.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	97%	97%	96.3%	Not Met
<p><b>Description:</b> The observed compliance rate for this performance measure is determined by calculating the total number of USCG domestic fishing vessel boardings minus boardings that had significant violations, divided by the total number of USCG domestic fishing vessel boardings. Only boardings that have a significant violation (a living marine resource violation that results in significant damage or impact to the fisheries resource, significant monetary advantage to the violator or has high regional or national interest) are counted. Violations are documented by USCG Report of Boarding Forms. Data from these reports are then entered into the Marine Inspection and Law Enforcement Database, where summary statistics can be obtained.</p> <p>Note: This program is aimed at reducing the number of significant fishing violations that occur within the U.S. Exclusive Economic Zone (EEZ) through at-sea enforcement of fisheries management plan regulations. The target is to ensure at least 97 percent of commercial fishermen in the United States will be observed fishing in compliance with federal regulations.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> Observed compliance rate was 96.3 percent below our goal of 97 percent or higher. Of note, more than 4,500 fisheries boardings were conducted in fiscal year 2004, up from 3,408 in fiscal year 2003 and 4,121 in fiscal year 2002. More than one-third of all significant violations detected in fiscal year 2004 occurred in the Gulf of Mexico and South Atlantic shrimp fisheries. Poor economic conditions are believed to be a significant driver of the high number of violations in those fisheries. Despite fisheries law enforcement efforts, high violation rates in these fisheries will likely continue until economic conditions improve. The fiscal year 2005 target is 97 percent or higher observed compliance rate.</p>				
<p><b>Recommended Action:</b> The USCG will continue to assign resources as available to meet District threat-based requests, through leveraging technology and forging more effective partnerships, which will contribute to higher observed compliance rates. Shore-based small boat resources have been significantly impacted by Ports, Waterways and Coastal Security (PWCS) mission requirements. As Maritime Safety and Security Teams and other PWCS-focused assets continue to be brought online, multi-mission stations will focus on returning to fisheries law enforcement. Units assigned to other missions will perform fisheries boardings on a not-to-interfere basis. This has been effective in the waters near Puerto Rico, where cutters on migrant and drug interdiction patrols have detected significant fisheries violations. Boardings of opportunity are good ways to illustrate to the fishing industry the USCG's continued commitment to fisheries enforcement and also help USCG personnel hone the fisheries boarding skills that are so important to the detection and prosecution of significant fisheries violations.</p>				



# Performance Information

United States Coast Guard (USCG) – Marine Environment Protection Program				
Performance Goal:				
By 2009, the USCG will reduce the five-year average number of chemical discharge incidents and oil spills >100 gallons to 35 or less per 100 million tons shipped.				
<b>Objectives Supporting:</b> 1.1 and 5.2				
<b>Performance Measure:</b>				
The five-year average number of chemical discharge incidents and oil spills >100 gallons per 100 million tons shipped.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	29.4	41 or less	22.1	Met
<p><b>Description:</b> This performance measure indicates the five-year average, which includes the current and four previous calendar years, number of USCG investigated incidents involving more than 100 gallons of chemicals or oil discharged into navigable waters of the United States per 100 million short tons of chemicals and oil products shipped in U.S. waters.</p> <p>Only discharge incidents from maritime sources into U.S. waters are counted. Discharges onto land, into the air or into enclosed spaces are excluded. Discharges from non-maritime sources, such as aircraft, trucks and other vehicles, rail cars and rail equipment; naval and other public vessels; fixed platforms and pipelines, are excluded. Discharges from unspecified, unclassified and unknown sources are also excluded.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> The five-year average annual number of chemical spills and oil spills greater than 100 gallons was 22.1 per 100 million short tons shipped at the close of fiscal year 2004. This average has consistently fallen from 51.9 in 1998 to its present figure of 22.1, an improvement in performance of more than 42 percent.</p> <p>Note that data for the period just ended is likely to change and that current shipping volumes are a projection. Actual shipping data is not available until December of the following calendar year. Continuous improvement of our performance in Marine Environmental Protection is due to ongoing inspection, investigation, prevention and response programs as well as our work with industry partners in promoting the benefits of safe operations. Additionally, worldwide efforts through the International Maritime Organization continue to improve the quality of mariner training and qualification, thereby reducing the human factors that cause spills and other accidents.</p>				

# Performance Information

United States Coast Guard (USCG) – Other Law Enforcement Program				
<b>Performance Goal:</b>				
By 2009, the USCG will limit foreign fishing vessel (FFV) incursions into the U.S. Exclusive Economic Zone (EEZ) to 195 or fewer incursions.				
<b>Objectives Supporting:</b> 1.1 and 3.6				
<b>Performance Measure:</b>				
Number of incursions into the U.S. Exclusive Economic Zone.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	153	202	247	Not Met
<p><b>Description:</b> This performance measure indicates the number of foreign fishing vessel (FFV) incursions into the U.S. Exclusive Economic Zone (EEZ). The area of the EEZ includes the sea floor extending 200 nautical miles away from all U.S. possessions and trust territories.</p> <p>Incursions by a FFV into the U.S. EEZ are those incidents that result in one or more of the following conditions: significant damage/impact to U.S. fish stocks (based on volume extracted or status of stock targeted); significant financial impact due to volume and value of target fish stocks; or significant sovereignty concerns due to uncertainty or disagreement with foreign neighbors over the EEZ border.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> The USCG did not meet the fiscal year 2004 performance goal of 202 or less EEZ incursions. Mainly due to an increased number of reported incursions in the Gulf of Mexico, from 131 EEZ incursions in fiscal year 2003 to 212 EEZ incursions in fiscal year 2004. Incursion numbers in the other two high-threat areas are below our performance ceilings for those areas. Western and Central Pacific incursions remain at low levels (from 15 incursions in fiscal year 2003 to 24 incursions in fiscal year 2004), but due to resource constraints there have been no intercepts of the incursions in fiscal year 2004. The USCG ability to maintain near 100 percent presence along the United States-Russian (US-RS) Maritime Boundary Line (MBL) and Department of State demarche to Russia on policy change to use Warning Shot / Disabling Fire in fiscal year 2004 resulted in a dramatic decrease in incursions (five in fiscal year 2003 and 10 in fiscal year 2004).</p> <p>The fiscal year 2005 target remains 202 or less incursions. For fiscal year 2005 performance ceilings for the three high threat areas for EEZ encroachment are as follows:</p> <ul style="list-style-type: none"> <li>• US-RS MBL in the Central Bering Sea: 18</li> <li>• The EEZ in the Western and Central Pacific: 50</li> <li>• The United States-Mexico boundary in the Gulf of Mexico: 134</li> </ul> <p>Detection rates are influenced by surveillance coverage and reduced levels of fisheries enforcement effort may decrease detection of FFV encroachments into high threat areas. To ensure reductions in FFV incursions are a result of deterrence and not reduced surveillance coverage, Operational Commanders will continue to validate results with intelligence assessments. Data in support of this measure is provided by the intelligence community: USCG Intelligence (including the Intelligence Coordination Center) is one part of this community.</p>				
<p><b>Recommended Action:</b> The focus in the Gulf of Mexico will be on developing a more effective enforcement strategy with the National Oceanic and Atmospheric Administration and the Department of State to create a sufficient deterrence against Mexican fishermen fishing in the EEZ.</p>				

# Performance Information

## U.S. Immigration and Customs Enforcement (ICE) – Federal Protective Service (FPS) Program

### Performance Goal:

FPS's overall goal is to reduce the vulnerability of federal facilities and tenants by providing a safe and secure environment to federal tenants and the visiting public, while maintaining our ultimate responsibility to the taxpayers. The service's long-term goal is to achieve a 40 percent overall measurable reduction of the threat to federal facilities.

**Objectives Supporting:** 3.1, 3.2 and 3.5

### Performance Measure:

Reduction of risk factor for federal facilities.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
<b>Target/Actual Indicator:</b>	49.57%	Greater than 40%	53.42%	Met

**Description:** This measure provides the FPS decision-makers a means of identifying and evaluating threats to federal facilities and assessing program effectiveness in reducing these threats to the minimum acceptable level. The data supporting the measure are captured by FPS Law Enforcement Security Officers who are specially trained in the conduct of Facility Security Risk Management surveys conducted periodically within federally controlled facilities.

**Explanation of Fiscal Year 2004 Results:** FPS met the fiscal year 2004 target by improving the strategic methods used in identifying the most vulnerable federal facilities within the regions. Through the implementation of countermeasures, such as the addition of security equipment and the strategic placement of FPS Police Officers and contract guards, identified threats have been reduced with re-surveys reflecting a decrease in the vulnerability of federal facilities.

## United States Secret Service (USSS) – Foreign Protectees and Foreign Missions Program

### Performance Goal:

Protect visiting world leaders.

**Objectives Supporting:** 3.4

### Performance Measure:

Percentage of instances protectees arrive and depart safely.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
<b>Target/Actual Indicator:</b>	100%	100%	100%	Met

**Description:** The security of protectees is the ultimate priority of the USSS. The Foreign Protectees and Foreign Missions Program plans and implements the physical protection of foreign dignitaries; Uniformed Division activities associated with the physical protection of the Foreign Missions; and protection of United Nations General Assemblies and other such meetings when conducted in the United States. This measure represents the percentage of travel stops where the protectee safely arrives and departs. The performance target is always 100 percent. Anything under 100 percent is unacceptable. The data are obtained from internal USSS databases.

**Explanation of Fiscal Year 2004 Results:** Results from protective operations are immediately reported. Travel stops are a count of cities or other definable subdivisions visited by a protectee. A stop is generally considered a city or other definable subdivision visited by a protectee. The Department met its target of providing incident-free protection for visiting world leaders.

# Performance Information

United States Secret Service (USSS) – Infrastructure Investigations Program				
<b>Performance Goal:</b>				
Reduce losses to the public attributable to electronic crimes and crimes under the jurisdiction of the USSS that threaten the integrity and reliability of the critical infrastructure of the country.				
<b>Objectives Supporting:</b> 3.3				
<b>Performance Measure:</b>				
Financial crimes loss prevented.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	\$150 Million	Met
<b>Description:</b> The <i>USA PATRIOT Act</i> mandates that the USSS develop a network of electronic crimes task forces through out the United States. This measure reports an estimate of the direct dollar loss in millions prevented due to the USSS's Electronic Crimes Task Forces' investigations. This estimate is based on the likely amount of electronic financial crime that would have occurred had the offender not been identified nor the criminal enterprise disrupted. These data are obtained from internal USSS databases.				
<b>Explanation of Fiscal Year 2004 Results:</b> The Department, through the use of its Electronic Crimes Task Forces, was able to prevent \$150 million in losses attributable to infrastructure investigations. This was achieved through the successful investigations of computer-related and telecommunications crimes, which led to the intervention or interruption of criminal ventures.				

United States Secret Service (USSS) – Protective Intelligence Program				
<b>Performance Goal:</b>				
Reduce threats posed by global terrorists and other adversaries.				
<b>Objectives Supporting:</b> 3.4				
<b>Performance Measure:</b>				
Intelligence cases completed.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	3,927	4,500	3,992	Not Met
<b>Description:</b> The Protective Intelligence Program identifies and investigates groups, individuals and emerging technologies that may pose a threat to protectees. This measure represents the total number of protective intelligence cases (subjects, groups and activities that pose a potential threat to protected individuals, facilities and events) completed by agents assigned to field operations. These cases generally represent an assessment of individuals or groups who have threatened a protectee of the USSS. These data are obtained from internal USSS databases.				
<b>Explanation of Fiscal Year 2004 Results:</b> The Department evaluated protective-related intelligence on groups, subjects and activities that pose threats to protected individuals, facilities or events. Using this intelligence, the Department was able to maintain the efficiency of its protective operations without compromising the security of protectees, facilities and events under its protection.				
<b>Recommended Action:</b> The total number of intelligence cases closed represents an estimate of workload as opposed to a target. The Department completed all intelligence cases referred during the fiscal year in compliance with the service's critically self-imposed deadlines on intelligence cases.				

# Performance Information

United States Secret Service (USSS) – Campaign Protection Program				
<b>Performance Goal:</b>				
Protect our Presidential and Vice Presidential Candidates and Nominees.				
<b>Objectives Supporting:</b> 3.4				
<b>Performance Measure:</b>				
Percentage of instances protectees arrive and depart safely.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	100%	100%	Met
<p><b>Description:</b> The Campaign Protection Program plans and implements the physical protection for the Presidential/Vice Presidential candidates and nominees. This program also plans and implements the physical protection for the Democratic and Republican National Conventions and the Presidential Inauguration. The security of protectees is the ultimate priority of the USSS. This measure represents the percentage of travel stops where the protectee safely arrives and departs. The performance target is always 100 percent. Anything under 100 percent is unacceptable. Source data for this measure come from internal USSS databases.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> The Department met its target of providing incident-free protection for the Presidential and Vice Presidential Candidates and Nominees. The Secret Service was fully engaged with Campaign 2004 candidate protection and preparation for the presidential and vice presidential debates.</p>				

United States Secret Service (USSS) – Domestic Protectees Program				
<b>Performance Goal:</b>				
Protect the Nation's leaders and other protectees.				
<b>Objectives Supporting:</b> 3.4				
<b>Performance Measure:</b>				
Percentage of instances protectees arrive and depart safely.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	100%	100%	100%	Met
<p><b>Description:</b> The Domestic Protectees Program plans and implements the physical protection of the President, Vice President, their families, former presidents and other protectees as directed by law. This program also includes the White House Mail, as well as Uniformed Division activities associated with the physical protection of the White House complex. The security of protectees is the ultimate priority of the USSS. This measure represents the percentage of travel stops where the protectee safely arrives and departs. The performance target is always 100 percent. Anything under 100 percent is unacceptable. Source data for this measure come from internal USSS databases.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> The Department met its target of providing incident-free protection for the Nation's leaders and other protectees. The Secret Service achieved its goal by coordinating with all federal, state and local agencies to develop and implement seamless security plans that created a safe and secure environment for the Nation's leaders and other protectees.</p>				

# Performance Information

United States Secret Service (USSS) – Financial Investigations Program				
<b>Performance Goal:</b>				
Reduce losses to the public attributable to counterfeit currency, other financial crimes and identity theft crimes that are under the jurisdiction of the USSS, which threaten the integrity of our currency and the reliability of financial payment systems worldwide.				
<b>Objectives Supporting:</b> 3.4				
<b>Performance Measure:</b>				
Counterfeit passed per million dollars of genuine U.S. currency.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	\$58	Under \$74	\$60	Met
<b>Description:</b> This measure reports the dollar value of counterfeit notes passed on the public per million dollars of genuine currency. This measure is an indicator of the proportion of counterfeit currency relative to the amount of genuine U.S. currency in circulation. Past audits indicate that overall error rates are less than 1 percent. Source information for genuine U.S. currency in circulation comes from the <i>U.S. Currency and Coin Outstanding and in Circulation Report</i> , generated quarterly from the Department of Treasury. Source information for counterfeit U.S. currency comes from internal USSS databases.				
<b>Explanation of Fiscal Year 2004 Results:</b> The Department met its goal of restricting counterfeit money being circulated to under \$74 per \$1 million of genuine U.S. currency, limiting the ratio of counterfeit notes passed on the public to only \$60 per \$1 million of genuine currency. The Department is committed to reducing losses to the public that are attributable to counterfeit currency, in order to maintain the integrity of our currency and the reliability of financial payment systems worldwide. The Department's long-term fiscal year 2009 goal is to maintain this level of enforcement.				

Performance Measure:				
Financial crime loss prevented (\$billions).				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	\$2.5	\$1.0	\$1.7	Met
<b>Description:</b> This measure reports an estimate of the direct-dollar loss prevented due to USSS intervention/interruption of a criminal venture through a criminal investigation. This estimate is based on the likely amount of financial crime that would have occurred had the offender not been identified nor the criminal enterprise disrupted. Source data for this measure come from internal USSS databases.				
<b>Explanation of Fiscal Year 2004 Results:</b> The Department met its goal of preventing at least \$1 billion in loss attributable to financial crimes. This was achieved through conducting criminal investigations that resulted in the intervention or interruption of criminal ventures, which prevented \$1.7 billion in loss attributable to financial crimes. The Department is committed to reducing losses to the public that are attributable to financial crimes and identity theft.				

## Strategic Goal 4 – Response

The focus of this strategic goal is to lead, manage and coordinate the national response to acts of terrorism, natural disasters and other emergencies. The objectives established by the Department to achieve this goal are provided below.

**Objective 4.1** Reduce the loss of life and property by strengthening nationwide response readiness.

The Nation must have a vigorous capability to respond when disaster strikes. We strengthened the national capability to respond to disasters of all types, including terrorism, through the integration of Department of Homeland Security response systems and teams, and the completion of catastrophic all-hazards plans for the Nation's most vulnerable communities and geographic areas, including tactical elements to ensure coordinated response operations, logistics and support. We will continue to provide health and medical response readiness through integrated planning, surge capacity to address health and medical emergencies or acts of terrorism and developed the logistical capacity to provide intermediate emergency housing to large displaced populations following major disasters.

**Objective 4.2** Provide scalable and robust all-hazards response capability.

The Nation knows it can rely on us to respond in time of need. We will continue to provide and coordinate a quick and effective response when state, local and tribal resources are overwhelmed by disasters and emergencies. We will continue to bring the right people and resources to bear where and when they are needed most, including medical, urban search and rescue, and incident management capabilities, and will assist all mariners in peril. We will continue to provide integrated logistical support to ensure a rapid and effective response and coordinate among Department of Homeland Security and other federal, state and local operations centers consistent with national incident command protocols. We worked with our partners to create and implement a National Incident Management System and a single, all-discipline National Response Plan that strengthens the Nation's ability to respond to catastrophic events of all types, including terrorism.

**Objective 4.3** Provide search and rescue services to people and property in distress.

Mariners operate in an unforgiving and often remote environment that increases the risk of injury, loss of life and property. We will continue to use our maritime expertise, assets and around-the-clock, on-call readiness to conduct search and rescue missions to save lives and property. We will also continue to partner with other nations, federal, state and local agencies, the maritime industry, professional mariners, commercial providers and volunteer organizations to assist mariners in distress and protect property in imminent danger. We continue to identify and execute projects to improve our ability to respond to maritime distress incidents. Re-capitalization of aviation, surface, command and control architecture, and supporting logistic and personnel systems, as well as the procurement of specialized boats and attainment of additional search planning tools is greatly enhancing our ability to assist mariners in distress.

Detailed information concerning actual performance during fiscal year 2004 to achieve this goal is provided below.

# Performance Information

## Emergency Preparedness and Response (EP&R) — Response Program

### Performance Goal:

*As stated in the fiscal year 2004 Annual Performance Plan:*

By fiscal year 2009, maximum response time for emergency response teams to arrive on scene is reduced to no more than 12 hours.

*As enhanced to better reflect program performance:*

By fiscal year 2009, the Federal Emergency Management Agency (FEMA) will evaluate 100 percent of emergency teams and operations through at least one readiness evaluation or exercise (over four years, ending in fiscal year 2008); raise to 90 percent the average percentage of evaluated teams and operations achieving “fully operational” or better status (100 percent reached in fiscal year 2010); raise to 100 percent the average percentage of evaluated teams and operations achieving “fully operational” or better status; and reduce the average maximum response time in hours for emergency response teams to arrive on scene to 12 hours.

**Objectives Supporting:** 4.1

### Performance Measure:

*As stated in the fiscal year 2004 Annual Performance Plan:*

Maximum response time in hours for emergency response teams to arrive on scene.

*As enhanced to better reflect program performance:*

(A) Cumulative percentage of emergency teams and operations evaluated through at least one readiness evaluation or exercise (in a four-year cycle); (B) average percentage of evaluated teams and operations achieving “fully operational” or better status; (C) average percentage of evaluated teams rising one operational level in a year (considering four operational levels); and (D) average maximum response time in hours for emergency response teams to arrive on scene.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
<b>Target/Actual Indicator:</b>	72 hours for most disasters	(A) None (B) None (C) None (D) 72	(A) None (B) None (C) None (D) 50	Met

**Description:** For life-saving and other emergency response efforts, the hours immediately following a disaster are the most critical. This measure tracks the readiness of FEMA's response teams and their successful deployment to the field based on the number of hours elapsed from decision to deploy to arrival of a team on scene. These teams include: the National Disaster Medical System (NDMS), the Urban Search and Rescue (USR), the Federal Initial Response Support Team, the Mobile Emergency Response Support System, the National Emergency Operations Center, the Domestic Emergency Support Team and the Hurricane Liaison Team. FEMA will begin measurement of performance measure elements (A), (B) and (C) in fiscal year 2005.

The measure was modified by incorporating elements reflecting evaluations of federal emergency response teams into the original measure. It was changed to present a more representative measure of the response program. Elements (A) and (B) will be tracked beginning in fiscal year 2005; (C) in fiscal year 2006. Only element (D), which coincides with the measure submitted for the response program in the fiscal year 2005 *President's Budget Overview*, was targeted for quantifiable performance in fiscal year 2004.

**Explanation of Fiscal Year 2004 Results:** In fiscal year 2004, FEMA's response team capabilities were put to the test by the unprecedented string of hurricanes that struck the Southeast during the most active hurricane season in 100 years. FEMA's NDMS teams and USR task forces in particular did very well, averaging maximum response times of 10.6 and 11.5 hours, respectively, during the hurricane response period. Overall, the average maximum response for FEMA's emergency response teams to arrive on scene in 2004 was 50 hours, well below the target level of 72 hours. This year's results appear to put the Department in a good position to achieve its 2005 target of 48 hours, which will represent a significant reduction in response time from over 72 hours to 12 hours or less by fiscal year 2009.



# Performance Information

United States Coast Guard (USCG) — Search and Rescue Program				
<b>Performance Goal:</b>				
By 2009, the USCG will save 88 percent of mariners in imminent danger.				
<b>Objectives Supporting:</b> 1.1 and 4.3				
<b>Performance Measure:</b>				
Save mariners in imminent danger.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	87.7%	85% Lives Saved	86.84%	Met
<b>Description:</b> This performance measure indicates the percentage of successful search and rescue incidents where mariners were saved from imminent danger. Several factors compound the difficulty of successful responses, including untimely notification to the USCG of distress, incorrect reporting of the distress site location, severe weather conditions at the distress site and distance to the scene.				
<b>Explanation of Fiscal Year 2004 Results:</b> The USCG met the fiscal year 2004 performance target for the conduct of search and rescue missions to save mariners in imminent danger. The USCG's continued efforts to improve commercial vessel safety (through inspections, investigations and mariner qualification and licensing) and recreational boating safety (through courtesy boat inspections, boating safety and operator education programs) has helped reduce the number of people who become endangered at sea.				

## Strategic Goal 5 – Recovery

The focus of this strategic goal is to lead national, state, local and private-sector efforts to restore services and rebuild communities after acts of terrorism, natural disasters and other emergencies. The objectives established by the Department to achieve this goal are provided below.

**Objective 5.1** Strengthen nationwide recovery plans and capabilities.

We work with our partners to ensure the Nation's capability to recover from multiple or simultaneous disasters, including terrorist use of weapons of mass destruction, other man-made hazards and natural disasters, through the development and maintenance of short- and long-term plans and capabilities.

**Objective 5.2** Provide scalable and robust all-hazards recovery assistance.

We lead the Nation's recovery from the impacts of disasters and emergencies. We deliver timely and appropriate assistance to individuals and families following acts of terrorism, natural disasters and other emergencies, acknowledging the unique requirements of recovery from catastrophic disasters and weapons of mass destruction events. We provide help to restore services and public facilities, and provide states and other partners with professional, readily deployable, trained and certified leaders and staff to manage all levels and types of disasters. We make assistance available to states and local governments for the management, mitigation and control of local hazards and emergencies that threaten to become major disasters.

Detailed information concerning actual performance during fiscal year 2004 to achieve this goal is provided below.

# Performance Information

## Emergency Preparedness and Response (EP&R) – Recovery Program

### Performance Goal:

*As stated in the fiscal year 2004 Annual Performance Plan:*

By fiscal year 2009, provide recovery assistance at 100 percent of the fiscal year 2009 target level for performance in non-catastrophic disasters.

*As enhanced to better reflect program performance:*

By fiscal year 2009, the Federal Emergency Management Agency (FEMA) will increase the annual customer satisfaction level among recipients of Individual Disaster Recovery Assistance and Public Disaster Recovery Assistance to an average of 90 percent, reduce the program delivery cost for Individual Recovery Assistance and Public Recovery Assistance, reduce Individual Recovery Assistance processing cycle time by 20 percent over four years, and complete 95 percent of catastrophic disaster recovery planning with 100 percent reached in fiscal year 2010.

**Objectives Supporting:** 5.1 and 5.2

### Performance Measure:

*As stated in the fiscal year 2004 Annual Performance Plan:*

Progress toward providing recovery assistance at the 2009 target level for performance in non-catastrophic disasters.

*As enhanced to better reflect program performance:*

Percentage of customers satisfied with (A) Individual Recovery Assistance and (B) Public Recovery Assistance; percentage reduction in program delivery cost for (C) Individual Recovery Assistance and (D) Public Recovery Assistance; (E) reduction in Individual Recovery Assistance processing cycle time; and (F) percentage completion of catastrophic disaster recovery plan.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
<b>Target/Actual Indicator:</b>	N/A	(A) 90% (B) 87% (C) Determine Baseline (D) N/A (E) N/A (F) 30%	(A) 90.4% (B) TBD (C) Not Completed (D) N/A (E) N/A (F) 30%	Not Met

**Description:** This measure tracks customer satisfaction with FEMA's Individual Disaster Recovery Assistance and Public Disaster Recovery Assistance. Individual assistance is disaster recovery assistance provided to families and households in Presidentially declared disasters. Public assistance is disaster assistance provided to states and communities to undertake emergency measures and rebuild damaged public infrastructure in Presidentially declared disasters. This measure also includes elements tracking reduction in program costs for both types of assistance activities, as well as improvements in cycle time – the time it takes to process an application – for individual assistance. Lastly, this measure includes an element tracking successful completion of basic planning activities to provide for recovery operations following a catastrophic disaster.

The performance measure originally submitted in the fiscal year 2005 *President's Budget Overview* has been changed. The new measure breaks out the individual elements that were intended to be combined as part of an index in the original performance measure. The measure was changed to present a more representative measure of FEMA's recovery program. Elements (D) and (E) will be tracked beginning in fiscal year 2006.

# Performance Information

**Explanation of Fiscal Year 2004 Results:** For performance measure element (A), the customer satisfaction survey data for Individual Recovery Assistance are complete for the survey-reporting period of April 2003 through March 2004. This period does not coincide with the fiscal year because there is a six-month time lag to accommodate completion and analysis of all surveys for disasters declared during this period. For performance measure element (B), the customer satisfaction survey data for Public Recovery Assistance have been collected but not analyzed due to contracting difficulties, and will be reported in the *Performance and Accountability Report* for fiscal year 2005. For element (C), completion of per unit cost baseline for individual assistance has been delayed into fiscal year 2005 due to hurricane activity in Florida and the Gulf Coast. For element (F), the recovery program has completed 30 percent of its scheduled work on catastrophic disaster recovery planning for the fiscal year 2004-2010 period.

**Recommended Actions:** FEMA did not meet its target on two elements of its recovery program performance measure. The fiscal year 2004 actual for customer satisfaction with FEMA's Public Disaster Recovery Assistance could not be reported because of contract service delays in analyzing data collected by FEMA's Public Assistance customer satisfaction survey. This problem will be corrected in the first part of fiscal year 2005. The year-end result for 2004 will be reported in the *Performance and Accountability Report* for fiscal year 2005. Since fiscal year 2000, customer satisfaction rates for Public Disaster Recovery Assistance have averaged around 90 percent. Based on this trend, FEMA expects to meet its target of 87 percent satisfaction once the data have been analyzed. The second unmet element for this measure was the targeted development of a unit delivery cost baseline for Individual Disaster Recovery Assistance, which is intended as a first step toward a reduction in program costs. FEMA's effort fell short of completion on this element when staff were diverted to assist in the agency's unprecedented Florida/Gulf Coast hurricane response. FEMA will complete the unit cost element of this measure in the first part of fiscal year 2005.

## Strategic Goal 6 – Service

The focus of this strategic goal is to serve the public effectively by facilitating lawful trade, travel and immigration. The objectives established by the Department to achieve this goal are provided below.

**Objective 6.1** Increase understanding of naturalization, and its privileges and responsibilities.

Citizenship through naturalization is the ultimate privilege of the immigration system. We place renewed emphasis on a national effort to cultivate an awareness and understanding of American civic values and to underwrite commitment to U.S. citizenship. We promote education and training on citizenship rights, privileges and responsibilities, to not only enhance the naturalization experience, but also ensure that our immigration system promotes a common civic identity for diverse citizens.

**Objective 6.2** Provide efficient and responsive immigration services that respect the dignity and value of individuals.

We administer immigration laws in an efficient, expeditious, fair and humane manner. To respond to the increased demand for immigration services, we have streamlined processes and deployed modern information technology tools to increase the productivity of our employees. We have enhanced quality assurance through employee training and monitoring to provide courteous, accurate and responsive service to those who seek and qualify for admission into our country.

**Objective 6.3** Support the United States' humanitarian commitment with flexible and sound immigration and refugee programs.

The United States has a longstanding tradition of providing protection to individuals who have been persecuted and displaced. Because many applicants for humanitarian program benefits understandably lack documentation, the programs are uniquely vulnerable to abuse. We combat the risk posed by criminals or terrorists who attempt to exploit these programs, while maintaining our commitment to those who need refuge.

**Objective 6.4** Facilitate the efficient movement of legitimate cargo and people.

The border of the future must integrate actions to screen people and goods abroad prior to their arrival in sovereign U.S. territory to ensure compliance with entry and import regulations. Agreements with our Canadian and Mexican neighbors are central to this effort. America's borders are more efficient, posing little or no obstacle to legitimate travel and trade. We manage our borders to keep pace with expanding trade and migration, while preventing illegal immigrants, illicit drugs and other contraband from entering through the land, air and maritime approaches to our country.

Detailed information concerning actual performance during fiscal year 2004 to achieve this goal is provided below.

# Performance Information

U.S. Citizenship and Immigration Services (USCIS) — Asylum and Refugee Services Program				
<b>Performance Goal:</b>				
Adjudicate asylum and refugee applications in a timely, accurate, consistent and professional manner; and prevent ineligible individuals from receiving humanitarian benefits.				
<b>Objectives Supporting:</b> 6.3				
<b>Performance Measure:</b>				
Complete 75 percent of reform referrals (at local offices) within 60 days of receipt.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	83 percent	75 percent	71 percent	Not Met
<p><b>Description:</b> Asylum is a form of protection that allows individuals who are in the United States to remain here, provided that they meet the definition of a refugee and other legal criteria. Under Asylum Reform, an asylum applicant is not eligible for employment authorization unless granted asylum or no negative decision is made within 180 days from the date of filing. In order to meet the 180-day time limit, USCIS must complete court-referred cases within 60 days, giving the court 120 days to complete the adjudication. Recognizing that some cases should be exempt due to their complexity or the unavailability of staff at certain times, the asylum program has exempted 25 percent of its workload from this requirement. Asylum Officers update the Refugees, Asylum and Parole System (RAPS) with their decisions on asylum claims. RAPS calculates the number of days from the date the applicant files the case to the date the Asylum Office serves a Notice to Appear, which is used to place the applicant in the jurisdiction of the Immigration Court, minus any delays caused by the applicant. RAPS generates weekly, monthly and annual reports that measure the timeliness of case processing by asylum officers. These reports separate out those cases referred to the Immigration Judge within 60 days of receipt of application from those cases referred to the immigration judge in more than 60 days.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> Although the Asylum Division has exceeded this performance measure every year for the past five consecutive years, the Asylum Division fell short of this performance measure by approximately 4 percent in fiscal year 2004. To address this aberration, during the third quarter of fiscal year 2004, the Asylum Division conducted on-site audits of the four Asylum Offices that were underperforming to identify causes for the delays in processing. The Asylum Division found that in all four offices, certain inconsistencies in scheduling delayed timely interviews and contributed to a significant percentage of the delays in adjudication. In addition, at the Miami Asylum Office, the Asylum Division confirmed that the influx of Colombian cases during the last several years has exceeded the productive capacity of that office, resulting in an increase in processing delays.</p>				
<p><b>Recommended Action:</b> Based on the audits' findings, the headquarters Asylum Division and each of the four Asylum Offices worked together to identify corrective solutions that would improve processing rates. These solutions varied according to the unique needs of each office, but most involved the fine-tuning of certain processes within the office that would help management better track and monitor processing deadlines. With respect to the Miami Asylum Office, the Asylum Division expects processing rates to increase by virtue of increased staffing, as well as process enhancements. With the implementation of these solutions, the Asylum Division fully expects to increase its performance by at least 4 percent and meet (and likely exceed) its performance standard next fiscal year.</p>				

# Performance Information

<b>Performance Measure:</b>				
Adjudicate refugee applications (Form I-590) referred to USCIS by the United States Refugee Program during a given fiscal year in a timely, accurate, consistent and professional manner.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	89,792	Up to 90,000*	72,340	Met
<p><b>Description:</b> Generally, refugees are people who cannot return to their country of nationality, or in some cases people who wish to leave their country of nationality, due to past persecution or a fear of future persecution based on their race, religion, nationality, membership in a particular social group or political opinion. Each year, the President consults with Congress and establishes the annual ceiling for refugee admissions through issuance of a <i>Presidential Determination</i> (PD). The PD is published at the beginning of each fiscal year and establishes the annual refugee admissions ceiling for the year. In fiscal year 2004, the PD established an admissions ceiling of 70,000. USCIS estimates that approximately 90,000 applications must be adjudicated to meet this number of admissions. Refugee applications are adjudicated overseas, and those individuals who are granted refugee status are admitted to the United States at a later date. As a partner in the U.S. Refugee Program, the function of USCIS is to adjudicate the refugee applications presented to it by the program partners (e.g., United Nations High Commissioner for Refugees and the U.S. Department of State). Therefore, the USCIS caseload quantity is governed by the success of its other program partners to locate and present refugee applications for processing. Each USCIS overseas district office maintains a database of case receipts and completions known as the Performance Analysis System (PAS). Only cases that have been interviewed, approved for refugee classification and cleared for travel, or cases that have been interviewed and denied are counted as completions in the system. Cases that have been interviewed but are pending security advisory opinion clearances (which is a non-USCIS clearance) or other administrative clearances are not counted until pending clearances are approved or denied. For fiscal year 2004, USCIS relied on the Worldwide Refugee Admissions Processing System (WRAPS) to capture its performance statistics. This system, maintained by the U.S. Department of State, captures more meaningful and timely refugee processing statistics. Under the WRAPS system, unlike the PAS system, every case in which a USCIS officer has interviewed an applicant for refugee status is recorded, even if the case is pending completion. As a result, this system better reflects the number of refugee adjudications performed within a given reporting period. In the foreseeable future, USCIS will continue to use WRAPS to generate statistical information.</p> <p>*USCIS is committed to adjudicating all refugee cases presented and would not limit its efforts to 90,000 cases if a greater need arose.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> The fiscal year 2004 results were achieved through a very determined effort by the USCIS Office of Refugee Affairs to increase the number of cases adjudicated overseas. This was accomplished with the assistance of approximately 140 officers on temporary duty assignments from other programs, most notably from the Asylum Division. The fiscal year 2003 actual included a one-time administrative case closure project of 44,637 individuals, leaving a balance of 45,155 individuals actually interviewed and processed. The fiscal year 2004 figure of 72,340 demonstrates a 60 percent increase over the previous fiscal year in the number of individuals actually interviewed and processed by USCIS.</p>				

# Performance Information

U.S. Citizenship and Immigration Services (USCIS) – Backlog Initiative Program				
<b>Performance Goal:</b>				
Eliminate the immigration benefits application backlog and achieve a six-month cycle time standard by fiscal year 2006.				
<b>Objectives Supporting:</b> 6.2				
<b>Performance Measure:</b>				
Percentage of immigration benefit applications more than six months old.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	32%	Met
<p><b>Description:</b> On a monthly basis, USCIS collects performance data on immigration benefit applications received, completed and pending through its Performance Analysis System (PAS). USCIS uses these data to calculate the average age of applications. Average cycle time is calculated by dividing the End Pending (cases received but not yet adjudicated) by Average Monthly Receipts (for the past fiscal year). Performance on backlog elimination is reviewed to determine shortcomings, identify solutions and make any needed resource adjustments to ensure the target will be met.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> Since March of 2003, USCIS has reinvigorated a workforce of 15,000 men and women working toward a common goal to eliminate the backlog by 2006 without compromising national security. Through their efforts, along with the introduction of more efficient and streamlined processes and redefining backlog* to include only cases where a benefit is immediately available, the backlog has been reduced from 3.7 million to 1.5 million cases during this fiscal year.</p>				
<p>*USCIS aims to process all applications, from application to adjudicatory decision, within a defined cycle time that ranges from two weeks to six months depending on the specific benefit. Applications that exceed the cycle time target for their type are generically identified as backlog. During the course of fiscal year 2004, USCIS adopted the strategy of focusing its backlog elimination resources first on the individuals awaiting benefits that would be immediately available with a positive adjudicatory decision and for whom an excessive cycle time represents delay in the potential granting of an immigration benefit. We identified 1.1 million applications that are immigrant visa petitions on behalf of individuals for whom no visa numbers are currently available due to statutory numerical limitations. Therefore, we removed those applications from the backlog count, as no immediate benefit would be available with a positive adjudicatory decision. For these early submission cases, cycle time is not directly relevant to the actual availability of the benefit for which the application was submitted, so those cases, while taken in receipt order and considered active, pending cases, are no longer included in the USCIS backlog definition.</p>				



# Performance Information

## U.S. Citizenship and Immigration Services (USCIS) – Citizenship and Naturalization Services Program

### Performance Goal:

The Citizenship Services Program will provide citizenship and naturalization information and benefits in a timely, accurate, consistent, courteous and professional manner; and prevent ineligible individuals from receiving naturalization benefits.

### Objectives Supporting: 6.2

### Performance Measure:

Achieve and maintain a six-month cycle time goal for all citizenship and naturalization applications (Form N-400) in all offices by fiscal year 2006.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
Target/Actual Indicator:	14 months (Form N-400)	14 months (Form N-400)	11.8 months	Met

**Description:** On a monthly basis, USCIS collects performance data on citizenship and naturalization applications received, completed and pending through its Performance Analysis System (PAS). USCIS uses these data to calculate how many months it takes to process these applications. Average cycle time is calculated by dividing the end pending (cases received but not yet adjudicated) by average monthly receipts (for the past fiscal year). Performance on backlog elimination is reviewed to determine shortcomings, identify solutions and make any needed resource adjustments to ensure the target will be met.

Note: Prior to fiscal year 2004, actual performance was reported in terms of average case processing time, which is calculated by dividing the number of pending applications at the end of the fiscal year by the average number of completions during the past 12 months. In fiscal year 2004, USCIS changed its measurement for timeliness to average case cycle time. For comparison purposes, fiscal year 2003 actual performance has been converted to average case cycle time.

**Explanation of Fiscal Year 2004 Results:** Since March of 2003, USCIS has reinvigorated a workforce of 15,000 men and women working toward two main goals: to reduce case cycle times and eliminate the backlog by 2006 without compromising national security. Through their efforts, along with the introduction of more efficient and streamlined processes and redefining backlog\* to include only cases where a benefit is immediately available, case cycle time targets have been met or exceeded and the backlog has been reduced from 3.7 million to 1.5 million cases during this fiscal year.

\* USCIS aims to process all applications, from application to adjudicatory decision, within a defined cycle time that ranges from two weeks to six months depending on the specific benefit. Applications that exceed the cycle time target for their type are generically identified as backlog. During the course of fiscal year 2004, USCIS adopted the strategy of focusing its backlog elimination resources first on the individuals awaiting benefits that would be immediately available with a positive adjudicatory decision and for whom an excessive cycle time represents delay in the potential granting of an immigration benefit. We identified 1.1 million applications that are immigrant visa petitions on behalf of individuals for whom no visa numbers are currently available due to statutory numerical limitations. Therefore, we removed those applications from the backlog count, as no immediate benefit would be available with a positive adjudicatory decision. For these early submission cases, cycle time is not directly relevant to the actual availability of the benefit for which the application was submitted, so those cases, while taken in receipt order and considered active, pending cases, are no longer included in the USCIS backlog definition.

# Performance Information

## U.S. Citizenship and Immigration Services (USCIS) – Immigrant Services Program

### Performance Goal:

Provide legal permanent residency information and benefits in a timely, accurate, consistent, courteous and professional manner and prevent ineligible individuals from receiving immigration benefits.

**Objectives Supporting:** 6.2

### Performance Measure:

The Immigrant Services Program will achieve and maintain a cycle time goal of six months or less for all immigrant services applications (Form I-485) in all offices by fiscal year 2006.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
<b>Target/Actual Indicator:</b>	22 months (Form I-485)	20 months (Form I-485)	19.7 months	Met

**Description:** On a monthly basis, USCIS collects performance data on immigrant services applications received, completed and pending through its Performance Analysis System (PAS). USCIS uses these data to calculate how many months it takes to process these applications. Average cycle time is calculated by dividing the end pending (cases received but not yet adjudicated) by average monthly receipts (for the past fiscal year). Performance on backlog elimination is reviewed to determine shortcomings, identify solutions and make any needed resource adjustments to ensure the target will be met.

Note: Prior to fiscal year 2004, actual performance was reported in terms of average case processing time, which is calculated by dividing the average of the past 12 months of completions into the number of pending applications at the end of the fiscal year. In fiscal year 2004, USCIS changed its measurement for timeliness to average case cycle time. For comparison purposes, fiscal year 2003 actual performance has been converted to average case cycle time.

**Explanation of Fiscal Year 2004 Results:** Since March of 2003, USCIS has reinvigorated a workforce of 15,000 men and women working toward two main goals: to reduce case cycle times and eliminate the backlog by 2006 without compromising national security. Through their efforts, along with the introduction of more efficient and streamlined processes and redefining backlog\* to include only cases where a benefit is immediately available, case cycle time targets have been met or exceeded and the backlog has been reduced from 3.7 million to 1.5 million cases during this fiscal year.

\*USCIS aims to process all applications, from application to adjudicatory decision, within a defined cycle time that ranges from two weeks to six months depending on the specific benefit. Applications that exceed the cycle time target for their type are generically identified as backlog. During the course of fiscal year 2004, USCIS adopted the strategy of focusing its backlog elimination resources first on the individuals awaiting benefits that would be immediately available with a positive adjudicatory decision, and for whom an excessive cycle time represents delay in the potential granting of an immigration benefit. We identified 1.1 million applications that are immigrant visa petitions on behalf of individuals for whom no visa numbers are currently available due to statutory numerical limitations. Therefore, we removed those applications from the backlog count, as no immediate benefit would be available with a positive adjudicatory decision. For these early submission cases, cycle time is not directly relevant to the actual availability of the benefit for which the application was submitted, so those cases, while taken in receipt order and considered active, pending cases, are no longer included in the USCIS backlog definition.

# Performance Information

## U.S. Citizenship and Immigration Services (USCIS) – Nonimmigrant Services Program

### Performance Goal:

Provide temporary residency information and benefits in a timely, accurate, consistent, courteous and professional manner and prevent ineligible individuals from receiving nonimmigrant benefits.

**Objectives Supporting:** 6.2

### Performance Measure:

The Nonimmigrant Services Program will achieve and maintain a cycle time goal of six months or less for all nonimmigrant services applications (Form I-129) in all offices by fiscal year 2006.

Fiscal Year:	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2004 Results
<b>Target/Actual Indicator:</b>	2 months (Form I-129)	2 months (Form I-129)	1.5 months	Met

**Description:** On a monthly basis, USCIS collects performance data on nonimmigrant services applications received, completed and pending through its Performance Analysis System (PAS). USCIS uses this data to calculate how many months it takes to process the applications. Average cycle time is calculated by dividing the end pending (cases received but not yet adjudicated) by average monthly receipts (for the past fiscal year). Performance on backlog elimination is reviewed to determine shortcomings, identify solutions and make any needed resource adjustments to ensure the target will be met.

Note: Prior to fiscal year 2004, actual performance was reported in terms of average case processing time, which is calculated by dividing the average of the past 12 months of completions into the number of pending applications at the end of the fiscal year. In fiscal year 2004, USCIS changed its measurement for timeliness to average case cycle time. For comparison purposes, fiscal year 2003 actual performance has been converted to average case cycle time.

**Explanation of Fiscal Year 2004 Results:** Since March of 2003, USCIS has reinvigorated a workforce of 15,000 men and women working toward two main goals: to reduce case cycle times and eliminate the backlog by 2006 without compromising national security. Through their efforts, along with the introduction of more efficient and streamlined processes and redefining backlog\* to include only cases where a benefit is immediately available, case cycle time targets have been met or exceeded and the backlog has been reduced from 3.7 million to 1.5 million cases during this fiscal year.

\* USCIS aims to process all applications, from application to adjudicatory decision, within a defined cycle time that ranges from two weeks to six months depending upon the specific benefit. Applications that exceed the cycle time target for their type are generically identified as backlog. During the course of fiscal year 2004, USCIS adopted the strategy of focusing its backlog elimination resources first on the individuals awaiting benefits that would be immediately available with a positive adjudicatory decision, and for whom an excessive cycle time represents delay in the potential granting of an immigration benefit. We identified 1.1 million applications that are immigrant visa petitions on behalf of individuals for whom no visa numbers are currently available due to statutory numerical limitations. Therefore, we removed those applications from the backlog count, as no immediate benefit would be available with a positive adjudicatory decision. For these early submission cases, cycle time is not directly relevant to the actual availability of the benefit for which the application was submitted, so those cases, while taken in receipt order and considered active, pending cases, are no longer included in the USCIS backlog definition.

## Strategic Goal 7 – Organizational Excellence

The focus of this strategic goal is to value our most important resource – our people. We will create a culture that promotes a common identity, innovation, mutual respect, accountability and teamwork to achieve efficiencies, effectiveness and operational synergies. The objectives established by the Department to achieve this goal are provided below.

**Objective 7.1** Protect confidentiality and data integrity to ensure privacy and security.

Protecting vital and sensitive information, thus ensuring the privacy of American citizens, is important to the safety of the Nation. We ensure the technologies employed sustain, and do not erode, privacy protections relating to the collection, use and disclosure of personal information. We eliminate inappropriate access to confidential data to preserve the privacy of Americans. We maintain an appropriate balance between freedom and safety consistent with the values of our society.

**Objective 7.2** Integrate legacy services within the Department improving efficiency and effectiveness.

We are committed to creating a high-performing, integrated organization. We collaborate and communicate across legacy agency lines to ensure we have the best, most-effective mix of services. We have optimized mission performance by consolidating and integrating roles and responsibilities, creating better operating processes and procedures, and using the latest technology.

**Objective 7.3** Ensure effective recruitment, development, compensation, succession management and leadership of a diverse workforce to provide optimal service at a responsible cost.

We have created a personnel system that is flexible and contemporary while preserving basic civil service principles and merit concepts. We seek and employ the best and the brightest people the Nation has to offer. We have created a cooperative, positive work environment that benefits from the knowledge, experience and active input of employees. We have linked individual performance to organizational goals, helping individuals to maximize their potential and contribute fully to the organization.

**Objective 7.4** Improve the efficiency and effectiveness of the Department, ensuring taxpayers get value for their tax dollars.

We maintain continual and unquestionable accountability, responsibility and effective utility of all resources allocated to the Department. We develop prudent budget requests and evaluate the value received for the expenditures made to ensure the maximum benefit to the country for the tax dollars invested by the American public. With a strong commitment to a streamlined and effective competitive sourcing plan we have created a market-based organization that promotes competition, innovation and choice.

**Objective 7.5** Lead and promote E-Government modernization and interoperability initiatives.

The ability to communicate, coordinate and share information is key to ensuring the safety and security of the Nation. We have developed productive information-sharing relationships within the Department; and with other federal agencies; state, local and tribal governments; international partners; the private sector; and the American public. We provide appropriate incentives for non-federal entities to increase information sharing with the Federal Government, consistent with privacy and security policies. We designed and implemented an information architecture that reflects a national plan for information sharing to optimize interdependencies and strengthen interrelationships. We are using emerging technologies to better manage and disseminate the vital information needed to ensure the safety of American citizens.

**Objective 7.6** Fully integrate the strategic planning, budgeting and evaluation processes to maximize performance.

Aligning our activities, core processes and resources to our goals, objectives and resource expenditures is essential. We rigorously assess, evaluate and measure our performance and appropriately allocate resources to ensure effective stewardship of taxpayer dollars. Our strategic plan provides the foundation for budget development, execution and performance assessment.

# Performance Information

**Objective 7.7** Provide excellent customer service to support the mission of the Department.

Provide seamless, transparent and dedicated customer support services in the areas of budget, appropriations, expenditure of funds, accounting and finance; procurement; human resources and personnel; information technology systems; facilities, property, equipment and other material resources; and identification and tracking of performance measurements to enable the people in frontline programs to effectively accomplish the mission of the Department.

Detailed information concerning actual performance during fiscal year 2004 to achieve this goal is provided below.

# Performance Information

Federal Law Enforcement Training Center (FLETC) – Accreditation Program				
<b>Performance Goal:</b>				
Ensure law enforcement training programs, law enforcement instructors and facilities are accredited in accordance with established law enforcement standards.				
<b>Objectives Supporting:</b> 2.4 and 7.2				
<b>Performance Measure:</b>				
The number of Accreditation Managers trained.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	32	30	73	Met
<p><b>Description:</b> This workload measure identifies the number of Accreditation Managers actually trained during the fiscal year. The Accreditation Manager Training Program (AMTP) graduates prepare their organizations for the accreditation process. The delivery of the AMTP facilitates uniform interpretation of the Federal Law Enforcement Training Accreditation (FLETA) standards and ensures consistent implementation of accreditation process requirements. The source for this measure is the internal-generated class roster. The Office of Accreditation personnel collects the data from the class roster of graduates attending the accreditation assessor training and is recorded in the FLETA Automated Tracking Operations and Management System.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> We use professional law enforcement training standards and processes to optimize and standardize FLETC training operations. The delivery of the Accreditation Manager Training Program facilitates uniform interpretation of the FLETA standards and ensures consistent implementation of accreditation process requirements.</p>				

# Performance Information

Management Directorate – Management Directorate Program				
<b>Performance Goal:</b>				
Department program units receive world-class policy and low cost management support services, which enables them to efficiently achieve or exceed the Department's strategic goals.				
<b>Objectives Supporting:</b> 7.1, 7.2, 7.3, 7.4, 7.5, 7.6 and 7.7				
<b>Performance Measure:</b>				
Percentage of Departmental initiative scorecard criteria rated as meeting its standards.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	40%	Met
<p><b>Description:</b> Each quarter, the Department's headquarters staff makes an objective assessment of its organizational elements' standings in five key management areas: Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanded Electronic Government and Budget and Performance Integration.- Based on this assessment, progress and current condition in each area is rated relative to established rating criteria. The Baseline was to establish the percent of areas which met the required Departmental standards.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> The target was met to establish a baseline from which future progress can be measured.- During fiscal year 2004 progress supporting this goal included:</p> <ul style="list-style-type: none"> <li>• Completing a Human Capital Strategic Plan;</li> <li>• Completing a high-level strategic plan with a limited number of goals and objectives;</li> <li>• Completing Office of Management and Budget Program Assessment Rating Tool assessments for a selected number of organizational elements;</li> <li>• Incorporating Program Assessment Rating Tool performance measures information in budget and performance documents;</li> <li>• Modernizing financial information systems and procedures with an emphasis on cost accounting; and</li> <li>• Developing a series of performance measures that includes both outcome and efficiency measures.</li> </ul>				

# Performance Information

Management Directorate — Department-wide Technology Investment Program				
<b>Performance Goal:</b>				
The Department organizational elements and stakeholders have world-class information technology leadership and guidance enabling them to efficiently and effectively achieve their vision, mission and goals.				
<b>Objectives Supporting:</b> 7.5				
<b>Performance Measure:</b>				
The percentage of major information technology projects that are within 10 percent of cost/schedule/performance objectives.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	52%	Met
<p><b>Description:</b> This measure pertains to information obtained from the business cases for major departmental information technology investments. The business cases provide budget justification and reporting requirements for investments. These projects are considered major because of high cost or importance to the Department. The performance actual for fiscal year 2004 represents a comparison of project cost from fiscal year 2005 exhibits and fiscal year 2006 exhibits. Beginning in fiscal year 2005, quarterly reviews of all Level 1 investments will be reported on. Level 1 investments are characterized by the following: contract costs exceed \$100 million and have high sensitivity or interest. The baseline represents fiscal year 2004 funding amounts for information technology investments between the fiscal year 2005 and fiscal year 2006 submissions. Data reported upon represent 66 investment comparisons for cost only. This data will have to be verified and analyzed using quarterly reporting data in fiscal year 2005.</p>				
<p><b>Explanation of Fiscal Year 2004 Results:</b> The results were met; a baseline was established using fiscal year 2004 data from Office of Management and Budget (OMB) Exhibit 300 Business Cases. This information helps the Chief Information Officer track and identify problem areas that merit management attention. The data collected from the Exhibit 300s are prepared by Project Managers and certified by the Chief Financial Officer of the organizational element submitting the exhibits. This information is then sent to OMB for inclusion in the President's budget each year.</p>				
<p><b>Recommended Action:</b> Future interfaces from operational systems (e.g., Electronically Managing Enterprise Resources for Government Effectiveness and Efficiency (eMerge<sup>2</sup>) and Trusted Agent <i>Federal Information Security Management Act</i>) will populate the cost and schedule information in these exhibits, making them more reliable.</p>				



# Performance Information

Science and Technology – SAFECOM Program				
<b>Performance Goal:</b>				
Provide public safety agencies with central coordination, leadership and guidance to help them achieve short-term interoperability and long-term compatibility of their radio networks across jurisdictions and disciplines.				
<b>Objectives Supporting:</b> 7.2, 7.5				
<b>Performance Measure:</b>				
Increased interoperability across local, tribal, state and federal public safety jurisdictions and disciplines. Fiscal year 2005: Based on fiscal year 2004 baseline, improvements in three categories.				
<b>Fiscal Year:</b>	<b>FY2003 Actual</b>	<b>FY2004 Target</b>	<b>FY2004 Actual</b>	<b>FY2004 Results</b>
<b>Target/Actual Indicator:</b>	N/A	Baseline	Baseline Not Established	Not Met
<b>Description:</b> SAFECOM is a research and development program to satisfy a need for first responders to emergencies to communicate with one another in their mission to contain, mitigate and resolve the emergency at hand. It provides public safety agencies with central coordination, leadership and guidance to help them achieve short-term interoperability and long-term compatibility of their radio networks across jurisdictions and disciplines. The program will be measured by the three elements: (1) Increased number of agencies that can communicate with one another, (2) reduced time needed for cross-jurisdictional and cross-disciplinary response to an event, and (3) increased number of wireless grant programs that include SAFECOM-approved guidance.				
<b>Explanation of Fiscal Year 2004 Results:</b> No performance measurements for this project were taken in fiscal year 2004, but there was a solicitation and review of proposals leading to interoperability Baseline. The reason for this was that SAFECOM program was integrated into the newly established (late fiscal year 2004) Office of Interoperability and Compatibility. Concurrent to review of a proposal, performance measures and targets for this program are being developed based on a Balanced Scorecard approach.				
<b>Recommended Action:</b> Final development of performance measures and targets will take place in fiscal year 2005.				

## Program Evaluations

The Department of Homeland Security is committed to making its programs efficient and effective. As part of our assessment and evaluation process, we identify the strengths and weaknesses of Department programs and take action to ensure continued effectiveness. During fiscal year 2004, the Office of Management and Budget (OMB), the Office of the Inspector General (OIG) and the Government Accountability Office (GAO) performed numerous evaluations of the Department's programs.

### Office of Management and Budget Evaluations

Programs assessed by OMB during fiscal year 2004 are summarized below. These assessments were conducted using the Program Assessment Rating Tool, a diagnostic process that relies on objective data to inform evidence-based judgments across a wide range of issues related to performance. For summary purposes, we have presented the program evaluation finding using OMB's Program Assessment Rating Tool scoring of *Effective*, *Moderately Effective*, *Adequate* or *Results Not Demonstrated*. Significant findings are summarized below.

- **National Flood Insurance – Rating: *Moderately Effective***  
The review assessed the insurance and flood plain management portions of the National Flood Insurance Program and determined that its purpose and design, strategic planning and program management are basically sound. The program received some criticism concerning its low participation rate and the inclusion of some properties that burden the taxpayer. Currently, less than half of the eligible properties in identified flood plains participate in this program. In comparison, the participation rate for private wind and hurricane insurance is near 90 percent in at-risk areas. The review found that the Federal Emergency Management Agency (FEMA) is not currently targeting the proper properties, allowing repetitive loss properties to be insured under this program. Some modifications to improve program results were made when the President recently signed into law the *Flood Insurance Reform Act of 2004*, providing assistance to local communities and states to mitigate repetitive loss properties. In fiscal year 2004, FEMA introduced a new marketing and outreach campaign designed to increase participation rates in communities with the greatest potential for policy growth. FEMA has established outcome-based performance measures for this program, and is pursuing program changes that will improve the mitigation of repetitive loss properties through the Hazard Mitigation Grant, Flood Mitigation Assistance and the Pre-Disaster Mitigation programs.
- **Immigration Services – Rating: *Adequate***  
The review identified the areas of program management and program results as needing improvement. The review noted the following: “The program does not always make timely deposits of application fees, it is not yet designed to quickly respond to unforeseen events, and it cannot compute ‘deferred revenue’ through automated systems for case processing.” U.S. Citizenship and Immigration Services (USCIS) has since resolved the issue of timely deposits of immigration benefit application fees. USCIS Service Center data entry contractors are now required to deposit fees in a timely manner and comply with Department of Treasury guidelines. USCIS headquarters monitors the timeliness of deposits at the service centers to ensure compliance and address issues. Also, USCIS continues to move forward with lockbox operations, which assures real-time deposits of fees. USCIS is working to correct other issues identified from the Program Assessment Rating Tool. USCIS will increase its focus on information technology to ensure that long-term backlog reduction is sustained, customer service is improved, new fee-for-service business models are enabled, and a technology environment is deployed to support new processes and workflow. Specific improvement initiatives are outlined in the Updated Backlog Elimination Plan. The agency has already begun implementing significant information technology and process improvements, including electronic filing for certain immigration applications. Launched in May 2003, more than 182,000 immigration benefit applications have been filed online. Additionally, InfoPass, a web-based system that enables the public to go online to schedule appointments with immigration information officers at select USCIS offices, has dramatically reduced/eliminated the wait lines for those applicants and petitioners who seek assistance. USCIS is developing an automated case processing system that will provide refined earned revenue and deferred revenue information.

# Performance Information

- **Aids to Navigation – Rated: *Results Not Demonstrated***

The assessment raised questions about the design of the program, which is run directly by the U.S. Coast Guard (USCG) to guide mariners across America’s waterways. This program is an integral part of the USCG’s effort to prevent the financial and human costs that result from collisions, allisions (vessels striking fixed objects) and groundings. Other program designs, such as outsourcing functions, may be more appropriate or efficient. In addition, the assessment found that the program does not have long-term performance measures or regular evaluations; therefore, it cannot demonstrate the impact it is having on vessel safety. To address these findings, a study will be conducted on the competition of commercial activities and will assess the program to determine whether its services may be more efficiently provided by the private sector. USCG has also adopted the long-term and annual performance measures to gauge results in reducing the number of collisions, allisions (e.g. vessel striking a fixed object) and groundings.
- **Disaster Assistance, Public Assistance – Rated: *Results Not Demonstrated***

The program assessment demonstrated that the program has a strong purpose, but suffers from planning and management deficiencies that hinder results. The program provides grants to state and local governments and certain private non-profit organizations for debris removal, emergency protective measures and repair or replacement of damaged infrastructure to assist communities in recovering from the devastating effects of disasters, including terrorist events. Specifically, OMB found that the program has no long-term performance measures; cannot meaningfully track its operations with annual performance measures; and fails to adequately screen requests for assistance to determine whether federal help is needed. In fiscal year 2004, Emergency Preparedness and Response (EP&R) began a re-design of the program aimed at improving its effectiveness, efficiency and timeliness. As part of this effort, the program will develop more meaningful annual indicators and outcome performance measures for use beginning in fiscal year 2006.
- **Disaster Relief Fund, Public Assistance – Rated: *Results Not Demonstrated***

This public assistance program provides grants to state and local governments and certain private nonprofit organizations for debris removal, emergency protective measures and repair or replacement of damaged infrastructure to assist communities in recovering from the devastating effects of disasters, including terrorist events. The findings were that the program has a strong purpose, but suffers from planning and management deficiencies that hinder results. It has no long-term measures, cannot meaningfully track operations with performance measures and fails to adequately screen requests for assistance. FEMA is examining its performance measures for the public assistance program to better address the above concerns of OMB and taking appropriate actions such as placing a renewed emphasis on monitoring and reviewing performance progress reporting by grantees and expediting the closeouts of disasters. FEMA developed two new performance measures to place renewed emphasis on reviewing and monitoring performance progress. First, a long-term measure was established to gauge success in recovering from non-catastrophic disasters and reducing cost and assistance cycle times related to recovery from catastrophic disasters. Second, an annual measure was established to monitor individual and public recovery assistance in the areas of: customer satisfaction, cost, processing cycle time and completion of catastrophic recovery plans.
- **Drug Interdiction – Rated: *Results Not Demonstrated***

In fiscal year 2002, OMB recommended that independent evaluations be conducted regularly on the USCG’s program to reduce the amount of illegal drugs entering the United States by maritime means. The review also found that federal managers and program partners should be held accountable for cost, schedule and program results and that the program should establish long-term goals. In response, the Center for Naval Analysis is tentatively scheduled to conduct an evaluation of the program in fiscal year 2005. In a subsequent review, OMB found that the requirement for management accountability had been resolved. The USCG has established long-term performance targets as part of the Department’s *Future Years Homeland Security Program*. The USCG’s long-term goal is to reduce the amount of illegal drugs entering the United States by removing 30 percent of drug flow from maritime sources. The USCG has a number of other initiatives to improve capabilities and to gauge success in drug interdiction.

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- **Federal Law Enforcement Training Center – Rated: *Results Not Demonstrated***  
The Federal Law Enforcement Training Center (FLETC) trains law enforcement officers from more than 75 federal agencies and conducts various training programs for state, local and international officials and organizations. In fiscal year 2002, OMB assessed and rated FLETC using its Program Assessment Rating Tool. The assessment indicated the overall purpose of the program was clear. Additional findings included: (1) The program’s long-term performance goals lack specific targets to determine whether outcome goals are being achieved; (2) FLETC’s budget is not structured in a way to assess the impact of funding and policy changes on program performance; and (3) The program’s annual performance goals are not directly tied to achieving the long-term performance goals. In response, FLETC developed and implemented a performance measurement improvement process, which included a timeline with aggressive milestones. In April 2004, FLETC developed clear, long-term performance goals with specific timeframes and measures, and in September 2004, established efficiency measures for all programs.
- **Hazard Mitigation Grant – Rated: *Results Not Demonstrated***  
A 2002 review highlighted a need for a competitive pre-disaster mitigation grant program to provide post-disaster grants that will allow communities to use mitigation measures to reduce their vulnerability to hazards. In February 2003, Congress provided \$150 million to EP&R to initiate and administer the Pre-Disaster Mitigation Competitive Grant Program through FEMA. In fiscal year 2004, FEMA ran its first competitive process, partnering with states, tribes and territories to conduct a peer review and evaluation. The Agency is now incorporating lessons learned to strengthen and streamline the competitive process in fiscal year 2005. Since the program was assessed in 2002, FEMA has developed an outcome-oriented performance indicator that measures the total dollar value of property losses and other costs avoided from mitigation grant-making activities.
- **Metropolitan Medical Response System, Public Assistance – Rated: *Results Not Demonstrated***  
The review found that this program to help prepare local health personnel respond effectively to mass casualty incidents has a clear purpose, but suffers from planning and management deficiencies that hinder results. In fiscal year 2004, the program’s delivery mechanism changed from contract vehicles to federal grants. Development and piloting of an Operational Readiness Assessment process was put on hold in light of funding uncertainties and pending transfer of the program from EP&R to the Office of State and Local Government Coordination and Preparedness (SLGCP) where it will be consolidated with other preparedness grant programs. This transfer is scheduled to occur in fiscal year 2005.
- **Search and Rescue – Rated: *Results Not Demonstrated***  
The review found that this program lacked long-term performance measures and identified serious problems associated with staffing, training and equipment. The fiscal year 2004 budget contained several initiatives to improve Search and Rescue Station readiness. Staffing at small boat stations, command centers and training facilities has been increased. Funds were also provided specifically for personnel protective equipment at stations. Finally, the USCG has developed long-term and annual performance measures for the Search and Rescue program.

## Other Evaluations

The other program evaluations addressed in this report are those conducted by independent organizations such as the Department’s OIG and GAO. The Inspector General summarizes the major management challenges in the Inspector General’s Report included in Part I – Management Discussion and Analysis. They include: Consolidating the Department’s Components, Contract Management, Grants Management, Financial Management, Human Capital Management, Integration of Information Systems, Infrastructure Threat Assessment, Border Security and Transportation Security. Other evaluations include the following:

### U.S. Customs and Border Protection (CBP)

- ***Targeting Oceangoing Cargo Containers for Inspection* (GAO-04-557T) –** CBP is charged with addressing the potential threat posed by the movement of oceangoing cargo containers. Since officials cannot inspect every arriving cargo container, they use a targeting strategy. This system targets containers for inspection based on perceived risk level. GAO sought to determine whether the development of CBP’s targeting strategy is consistent with recognized risk-management and modeling practices and how well the strategy has been implemented. GAO found that CBP has taken

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steps to address the terrorism risks posed by oceangoing cargo containers, but that its strategy does not incorporate all key elements of a risk-management framework and is not entirely consistent with recognized modeling practices. CBP has refined its targeting system to target cargo containers that are high risk for terrorism or other smuggling for inspection. In addition, it has established the National Targeting Center to serve as the national focal point for targeting imported cargo and for distributing intelligence alerts to the ports. However, it has not performed a comprehensive set of assessments vital to determining the level of risk for oceangoing cargo containers and the types of responses necessary to mitigate that risk. CBP has not subjected its system to adequate external peer review or testing and has not fully implemented a process to randomly examine containers to test its targeting strategy. Therefore, CBP cannot be reasonably sure that its targeting strategy provides the best method to protect against weapons of mass destruction entering the United States and its seaports. The report also stated that CBP lacks an adequate mechanism to test or certify the competence of students who participate in national targeting training. Also, it has not been able to fully address longshoremen's safety concerns related to inspection equipment. Without instituting a national inspection reporting system, testing and certifying officials who receive the targeting training, and resolving the safety concerns of longshoremen unions, the targeting system's effectiveness as a risk-management tool is limited.

- *Agencies Need to Better Coordinate Their Strategies and Operations on Federal Lands* (GAO-04-590) – The CBP Border Patrol is responsible for protecting the Nation's borders. However, a significant portion of the borderlands are federal or tribal lands managed by the Bureau of Indian Affairs, Bureau of Land Management, Fish and Wildlife Service, National Park Service and Forest Service. Realizing the importance of coordinating federal law enforcement efforts, GAO agreed to assess border-related law enforcement challenges for land management agencies in Arizona and Washington, resources these agencies have received and how the Border Patrol and land management agencies coordinate border-related law enforcement efforts. GAO found that rising illegal activity on federal and tribal lands in Arizona results from the Border Patrol concentrating resources in populated areas, thus shifting illegal traffic to more remote federal land, where fewer resources have been placed. Although the problem is not as serious at the Canadian border, Washington land management agency officials are concerned that as Border Patrol increases resources in populated areas, more illegal traffic will shift to remote federal lands. Five land management agencies stated that their resource levels have not kept pace with increases in illegal border activities. Agency funding is mission-driven, according to OMB. As a result, their proposals for certain border projects have not been included in the fiscal year 2005 budget. At the national level, interagency coordination of strategic plans and activities among Border Patrol and land management agencies is minimal regarding the Canadian and Mexican borders. Hence, limited funds may not be used most efficiently, and the impact of one agency's actions on another may not be considered. Border Patrol has not issued detailed plans to ensure that interagency coordination occurs or coordinated with land management officials regarding infrastructure and technology improvement funding. At the field level, some coordination has occurred. Various agencies have been meeting to improve operations and to share Arizona threat assessments. GAO concluded that Border Patrol does not have the resources to control the borders in their entirety. It is critical that Border Patrol and land management agencies closely coordinate their efforts to ensure the best use of limited resources and that appropriate strategies are developed to respond to increased illegal border activity in both populated areas and the wilderness. In addition, the sharing of information including funding plans, daily operations and deployment plans are essential to maximizing efficiency.

## U.S. Immigration and Customs Enforcement (ICE)

- *Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists' Use of Alternative Financing Mechanisms* (GAO-04-163) - Cutting off terrorists' funding is essential to deterring terrorist operations. The USA PATRIOT Act expanded the ability of law enforcement and intelligence agencies to access and share financial information regarding terrorist investigations, but terrorists may have adjusted their activities by increasing use of alternative financing mechanisms. GAO was asked to assess: the nature of terrorists' use of key alternative financing mechanisms for earning, moving and storing terrorists' assets; what is known about the extent of terrorists' use of alternative financing mechanisms; and challenges that the U.S. government faces in monitoring terrorists' use of alternative financing mechanisms. GAO's evaluation found the Department to be effective in achieving these objectives. To address identified

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shortcomings related to this multi-agency effort, GAO scheduled evaluation milestones and made the following recommendations: the Director of the Federal Bureau of Investigation (FBI) should systematically collect and analyze data concerning terrorists' use of alternative financing mechanisms; the Secretary of the Treasury and the Attorney General should produce the planned report based on up-to-date law enforcement investigations on precious stones and commodities; and the Internal Revenue Service Commissioner should establish interim procedures for sharing information on charities with state charity officials. ICE is addressing the recommendations through the collection, analysis and sharing of financial information identified by its investigators.

## Transportation Security Administration (TSA)

- *Private Screening Operations Performance Evaluation Report (PP5)* – The report on security effectiveness, conducted by Bearing Point, found as a result of a qualitative survey of stakeholders that there is no difference between privately and federally screened airports. The report also stated that there is no evidence that any of the five privately screened airports performed below the average level of the federal airports as measured by covert testing, threat image projection data, gate screening and re-certifications testing. Also, the costs for the five privately screened airports were not significantly different from the estimated cost of a federal screening operation at that same airport. Customer satisfaction was found to be mixed or inconclusive in terms of the performance of the privately screened airports compared to the federally screened airports.
- *Aviation Security: Further Steps Needed to Strengthen the Security of Commercial Airport Perimeters and Access Controls (GAO-04-728)* – In the two years since passage of the *Aviation and Transportation Security Act*, TSA has primarily focused its efforts on improving aviation security through enhanced passenger and baggage screening. The act also contained provisions directing TSA to take actions to improve the security of airport perimeters, access controls and airport workers. GAO was asked to assess TSA's efforts to: evaluate the security of airport perimeters and the controls that limit access into secured airport areas; help airports implement and enhance perimeter security and access controls by providing them funding and technical guidance; and implement measures to reduce the potential security risks posed by airport workers. GAO recommended that the Secretary of Homeland Security direct TSA's Administrator to develop and provide Congress with a plan for meeting the requirements of the *Aviation and Transportation Security Act* and taking other actions to improve airport security. TSA generally concurs with the report; however, it believes that the report creates the impression that TSA has done less than it actually has to provide security for commercial aviation. Much has been accomplished in the less than two years since enactment of the *Aviation and Transportation Security Act*, and intervening time since completion of the federalization of passenger security screening at U.S. airports on November 19, 2002. TSA has instituted a system of reinforcing rings of security to mitigate the risk of future terrorist or criminal acts. These security measures, supported by intelligence and threat analysis, work together to help secure aviation from curbside to cockpit. While no single component of this system is infallible, it has substantially improved the security of the traveling public. Since the completion of GAO's report, TSA has begun conducting joint vulnerability assessments with the FBI. These vulnerability assessments are threat-based and will be applied at critical commercial airports. The assessment uses current, FBI developed threat information as its starting point, and then focuses on defining an airport's security system against a current threat. The application of the assessment tool will allow TSA to leverage existing FBI resources and knowledge base to better assess security gaps and vulnerabilities at particular airports. In addition to these government-facilitated assessments, a self-assessment tool will be available to airports that are deemed less critical. The tool will focus on prevention and mitigation of an array of threat scenarios developed for various categories of transportation modes.

## U.S. Visitor and Immigrant Status Indicator Technology (US-VISIT)

- *First Phase of Visitor and Immigration Status Program Operating, but Improvements Needed (GAO-04-586)* – The Department established US-VISIT to collect, maintain and share information, including biometric identifiers, on selected foreign nationals who travel to the United States. By congressional mandate, the Department is to develop and submit for approval an expenditure plan for the program. The Department's fiscal year 2004 US-VISIT expenditure

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plan and related documentation at least partially satisfy all conditions imposed by Congress. GAO found that US-VISIT met its commitments for implementing its commitments on initial operating capability in early January 2004 for the deployment of entry capability at 115 air and 14 sea ports of entry. However, the Department has not employed rigorous, disciplined management controls typically associated with successful programs, such as test management, and its plans for implementing other controls, such as independent verification and validation, may not prove effective. More specifically, testing of the initial phase of the implemented system was not well managed and was completed after the system became operational. In addition, multiple test plans were developed during testing. Only the final test plan, completed after testing, included all required content, such as describing tests to be performed. Such controls, while significant for the initial phases of this program, are even more critical for the later phases, as its size and complexity will only increase. Finally, the Department's plans for future resource needs, such as staff and facilities, at the land ports of entry are based on questionable assumptions.

## Information Analysis and Infrastructure Protection (IAIP)

- *Improving Information Sharing with Infrastructure Sectors (GAO-04-780)* – Critical infrastructure protection activities called for in federal policy and law are intended to enhance the security of the public and private infrastructures that are essential to the Nation's security, economic security and public health and safety. Effective information-sharing partnerships between industry sectors and government can enhance protection of critical infrastructure. Federal policy has encouraged the voluntary creation of information-sharing and analysis centers to facilitate infrastructure sector participation in critical infrastructure protection information-sharing efforts. A number of challenges have been identified by the information-sharing and analysis centers that could be addressed with the development of an information-sharing plan. GAO recommended the Department develop an information-sharing plan and establish appropriate policies and procedures. These will improve interaction with information-sharing and analysis centers, with sector coordinators and sector-specific agencies, and within the Department's components. The plan would define the roles and responsibilities of the various stakeholders and establish criteria for providing the appropriate incentives to address the challenges.
- *Formidable Information and Technology Management Challenge Requires Institutional Approach (GAO-04-702)* – Since the Department has been operating for more than a year, GAO was asked to describe its progress in meeting its information and technology management goals. The overall challenge has been standardizing and integrating the disparate systems while also making major improvements in information technology. To achieve this, the Department is implementing seven information and technology management disciplines, including information management, information technology strategic planning, information technology human capital management and information security management. GAO determined that this initiative has had mixed results and is "a work in progress." The report stated that although such results are to be expected given the sizeable task of combining 22 agencies, the fact that these management elements have not fully been institutionalized is hampering the Department's pursuit of new and enhanced information technology investments. GAO made similar recommendations in the past to the Department's Chief Information Officer (CIO) and other responsible parties. In addition, the GAO found that the Department's draft information technology strategic plan lacked specific goals, performance measures, milestones and knowledge of whether it has information technology staff with the right skills to accomplish these tasks. GAO recommended that the Secretary direct the CIO, in conjunction with the CIO Council, to take three actions. First, establish information technology goals and performance measures that, at a minimum, address how information and technology management contributes to program productivity, the efficiency and effectiveness of agency operations and services to the public. Second, establish milestones for the initiation and completion of major information and technology management activities. And finally, analyze whether the Department has appropriately deployed information technology staff with the relevant skills to obtain its target information technology structure and, if it does, whether they are allocated appropriately.

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## U.S. Coast Guard (USCG)

- *USCG's Deepwater Program Needs Increased Attention to Management and Contractor Oversight* (GAO-04-380) – The USCG's Deepwater Program, the largest acquisition program in its history, involves modernizing or replacing ships, aircraft and communications equipment. It is estimated the program will cost \$17 billion over a 30-year period. GAO assessed whether the USCG is effectively managing the Deepwater Program and overseeing the contractor, and the implications of using the deepwater contracting model on competition opportunities. It also found that more than a year and a half into the Deepwater contract, the key components needed to manage the program and oversee the system integrator's performance have not been effectively implemented. Integrated product teams, the USCG's primary tool for overseeing the system integrator, have struggled to effectively collaborate and accomplish their missions. They have been hampered by changes in membership, staff shortages, insufficient training and inadequate communication. In addition, the USCG has not adequately addressed the frequent turnover of program personnel and the transition from existing to Deepwater assets. The USCG's assessment of the system integrator's performance in the first year of the contract lacked rigor. Further, the USCG has not yet begun to measure the system integrator's performance on the three overarching goals of the Deepwater Program: operational effectiveness, total ownership cost and customer satisfaction. Its original plan of measuring progress on an annual basis has slipped, and USCG officials have not projected a timeframe for when they will be able to hold the contractor accountable for its progress against these goals. This information will be essential to the USCG's decision about whether to extend the Integrated USCG System contract after the first five years. Competition is critical to controlling costs in the Deepwater Program and a guiding principle of Department acquisitions. Concerns about the USCG's ability to rely on competition as a means to control future costs contributed to GAO's description of the Deepwater Program in 2001 as "risky." The USCG has taken a hands-off approach to "make or buy" decisions made at the subcontractor level. As a result, questions remain about whether the government will be able to control costs. GAO recommended that the Secretary of Homeland Security direct the Commandant of the USCG to take a number of actions to improve Deepwater management and contractor oversight.

## Office of State and Local Government Coordination and Preparedness (SLGCP)

- *Federal Funds for First Responders* (GAO-04-788T) – September 11<sup>th</sup> highlighted the critical role first responders play at the state and local level when a disaster or emergency occurs. In fiscal years 2002 and 2003, Congress appropriated \$13.9 billion for domestic preparedness. Large portions of these funds were to enhance the ability of first responders to address future emergencies, including potential terrorist attacks. These funds are primarily to assist with planning, equipment purchases, training and exercises, and administrative costs. The money is available to first responders mainly through the State Homeland Security Grant Programs and Urban Area Security Initiative grants. Both programs are administered through SLGCP. The reports of the Department of Homeland Security OIG and the House Select Committee on Homeland Security examined the distribution of funds to states and localities. Both reports found that although there have been delays in getting federal first-responder funds to local governments and first-responder agencies, the grant management requirements, procedures and processes of the SLGCP were not the principal cause. According to the report, most states met deadlines for sub-granting first-responder funds to local jurisdictions. The fiscal year 2003 State Homeland Security Grant Programs and Urban Area Security Initiative required states to transfer 80 percent of first-responder grant funds to local jurisdictions within 45 days of being awarded the funds. The IG's report found that most states met that deadline by counting funds as transferred when states agreed to allocate a specific amount of the grant to a local jurisdiction. The three states that were examined certified they had allocated funds to local jurisdictions within the 45-day period. It was determined that delays in allocating grant funds to first-responder agencies are frequently due to local legal and procedural requirements. State and local governments sometimes delayed delivery of fiscal year 2002 grant funds, for example, because governing and political bodies within the states and local jurisdictions had to approve and accept the grant funds. GAO's work indicated a similar finding. In one state GAO reviewed, roughly four months elapsed from the date the city was notified that grant funds were available to the date when the city council voted to accept the funds. Both reports GAO reviewed found that state and local procurement processes have, in some cases, been affected by delays resulting from specific procurement requirements. While some states purchase first-responder equipment centrally for all jurisdictions, in some instances, those purchases are made locally and procurement may be delayed by competitive bidding rules.

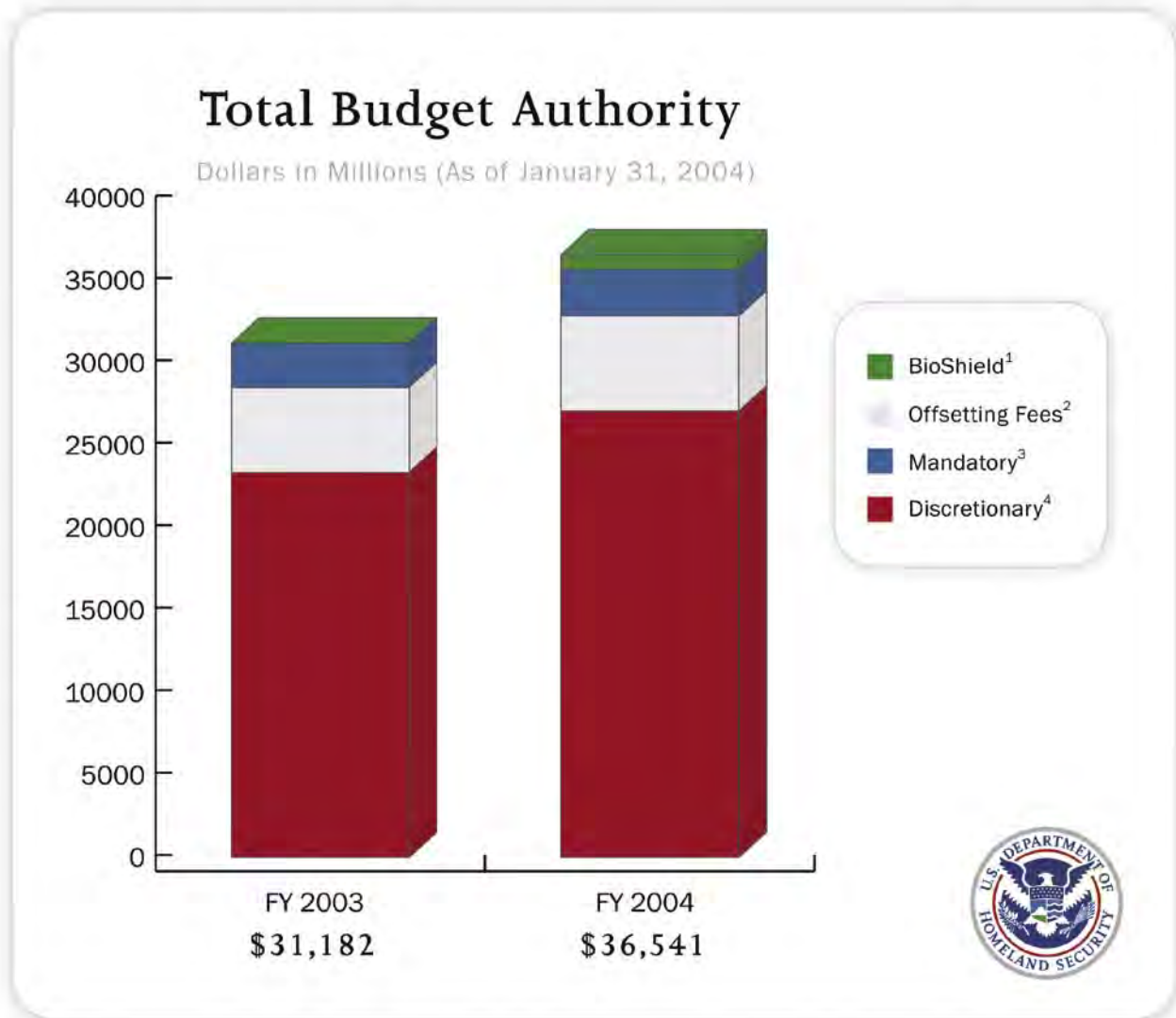


## Budget

On February 2, 2004, the Department of Homeland Security delivered its Performance Budget to Congress in justification of the *President's Budget for Fiscal Year 2005*. In compliance with the *Government Performance and Results Act of 1993*, the Performance Budget complied with the Act's provisions for an Annual Performance Plan. The *Performance Budget for Fiscal Year 2005* embodied the final *Annual Performance Plan for Fiscal Year 2004* on which this fiscal year 2004 *Performance and Accountability Report* accounts. The fiscal year 2004 performance plan was aligned with the following budget summary, which totals \$36.5 billion. This amount was devoted toward achieving the Department's strategic goals.

Beginning with the fiscal year 2005 budget, the Department integrated budget and performance information as required by the *President's Management Agenda* and the *Government Performance and Results Act*. In an effort to integrate performance and financial information, the Department is currently developing policies and procedures to ensure all fiscal year 2005 Program costs are directly traced, assigned, or allocated on a reasonable and consistent basis to the Department's seven strategic goals. This will enable the Department to improve the understanding of the costs associated with achieving its mission and goals.

# Performance Information



<sup>1</sup>On July 21, 2004, President Bush signed the *Project Bioshield Act of 2004*, Public Law 108-276. The Act authorized the transfer of the Strategic National Stockpile (SNS) functions, personnel, assets, unexpended balances and liabilities to the Secretary of Health and Human Services. Pursuant to the *Project Bioshield Act of 2004*, on Aug. 13, 2004, the Department transferred the SNS from the Department's Directorate for Emergency Preparedness and Response to the Department of Health and Human Services. Although the program has been transferred, transactions and data related to the SNS activities are reflected in the Department's Consolidated Statement of Net Cost.

<sup>2</sup>Offsetting Fees, refers to fees assessed on individuals or organizations for the provision of government services and for the sale or use of government goods or resources.

<sup>3</sup>Mandatory spending, also called direct spending, refers to spending controlled by laws other than appropriation acts (including spending for entitlement programs such as food stamps, Medicare, veterans' pensions, payment of interest on the public debt and nonentitlements such as payments to states from Forest Service receipts).

<sup>4</sup>Discretionary spending refers to budgetary resources (except those provided to fund mandatory spending programs) controllable through the congressional appropriation process.

# Performance Information

ORGANIZATIONAL ELEMENT	FY 2003	FY 2004 <sup>1</sup> (As of January 31, 2004)	(+/-) Change FY 2003 to FY 2004
<b>INFORMATION ANALYSIS &amp; INFRASTRUCTURE PROTECTION (IAIP) DIRECTORATE</b>	<b>185</b>	<b>834</b>	<b>649</b>
<b>BORDER TRANSPORTATION AND SECURITY (BTS) DIRECTORATE</b>	<b>14,347</b>	<b>14,528</b>	<b>181</b>
BTS Under Secretary	0	8	8
US-VISIT	380	328	-52
U.S. Customs & Border Protection (CBP)	5,887	5,942	55
U.S. Immigration & Customs Enforcement (ICE)	3,262	3,654	392
Transportation Security Administration (TSA)	4,648	4,405	-243
Federal Law Enforcement Training Center (FLETC)	170	191	21
<b>EMERGENCY PREPAREDNESS AND RESPONSE (EP&amp;R) DIRECTORATE</b>	<b>5,175</b>	<b>5,493</b>	<b>318</b>
EP&R Federal Emergency Management Agency (Less Biodefense) <sup>2</sup>	5,175	4,608	-567
Biodefense	0	885	885
<b>SCIENCE AND TECHNOLOGY (S&amp;T) DIRECTORATE</b>	<b>553</b>	<b>913</b>	<b>360</b>
<b>DEPARTMENTAL MANAGEMENT DIRECTORATE (MD) AND OPERATIONS</b>	<b>2,111</b>	<b>4,851</b>	<b>2,740</b>
Departmental Management	2,040	4,771	2,731
Departmental Operations	22	211	189
Technology Investments	47	184	137
Counter-Terrorism Fund	10	10	0
Office for Domestic Preparedness <sup>3</sup>	1,961	4,366	2,405
Inspector General	71	80	9
<b>United States Coast Guard (USCG)</b>	<b>6,196</b>	<b>6,935</b>	<b>739</b>
<b>United States Secret Service (USSS)</b>	<b>1,193</b>	<b>1,334</b>	<b>141</b>
<b>U.S. Citizenship &amp; Immigration Services (USCIS)</b>	<b>1,422</b>	<b>1,653</b>	<b>231</b>
<b>TOTAL</b>	<b>31,182</b>	<b>36,541</b>	<b>5,359</b>

<sup>1</sup> Fiscal Year 2004 total excludes war supplemental funding.

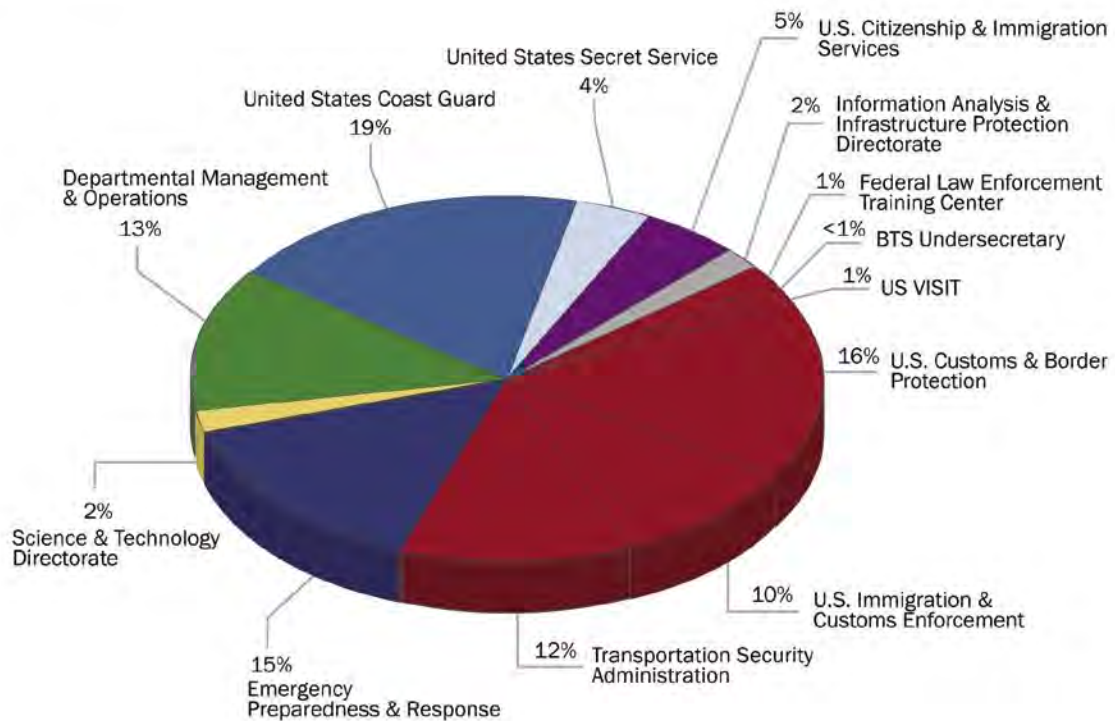
<sup>2</sup> Fiscal Year 2003 includes supplemental funding for EP&R: FEMA (\$1,426 Million); all other supplemental funding has been excluded

<sup>3</sup> On March 26, 2004, the Secretary under the statutory authority for reorganization contained in the Homeland Security Act of 2002 consolidated several organizations, notably the Office of Domestic Preparedness, currently within Border Transportation Security, with the Office of State and Local Government Coordination.

# Performance Information

## FY 2004 Total Budget Authority by Organization

(As of January 31, 2004)



- Information Analysis & Infrastructure Protection (IAIP) Directorate
- Border & Transportation Security (BTS) Directorate
- Emergency Preparedness and Response (EP&R) Directorate
- Science & Technology (S&T) Directorate
- Departmental Management Directorate (MD) & Operations
- United States Coast Guard (USCG)
- United States Secret Service (USSS)
- U.S. Citizenship & Immigration Services (USCIS)





# Appendices

Part IV

## Appendix A - Improper Payments Risk Matrix Results

### Overall Risk Score

No bureau reported a program score above the 3.0 floor used to define susceptible to improper payment risk. This result will need to be substantiated by statistically significant payment sampling for each type of payment with a materially significant total payment amount. This work will take place during the first quarter of fiscal year 2005.

### Individual Risk Scores

No scores above 3.0 were reported for any program's individual risk scores in the areas of internal payment processing control risk, monitoring control risk, external payment processing control risk, human capital risk, or complexity of program. Scores above 3.0 were reported in the areas of age of program, program recipients, and materiality of operating budget. Some bureaus shared the same individual risk score across all programs reflecting common financial systems and control processes. Complexity of program received the lowest overall risk scores and materiality of operating budget the highest. No element average above a 3.0 score.

### Exclusion of Payroll

Many bureaus did not exclude payroll from their fiscal year 2005 Operating Budget Figure. Three programs dropped below the \$100 million threshold when payroll was excluded. The presence or absence of payroll did not effect whether a program that was assigned risk matrix scores fell above or below a 3.0 overall score. In all cases the overall score would have remained below 3.0.

### Improper Payments Risk Matrix Instructions and Background Information Grading

Programs are evaluated on a 1-5 scale with 1 representing lowest risk and 5 equating to highest risk. Grading criteria are listed on the following Grading Worksheet. Bureau should assign whole number grades. Averages should be reported to the nearest tenth. N/A should be used if not applicable criteria. The average calculation should not include any N/A factors.

### Include/Exclude Criteria

To be included, programs must have fiscal year 2005 Operating Budgets of at least \$100 million, excluding payroll. Payroll is excluded because it is not susceptible to improper payments (recurring stable payment, rigorous NFC payment edits, recurring budget and accounting audit review). The \$100 million floor assumes that no program will have an improper payment rate over 10 percent. Over 95 percent of all fiscal year 2005 Congressional Operating Budgetary Dollars are included in the assessment. Fiscal year 2005 Congressional Operating Budgetary Dollars are the most current year for which *Future Years Homeland Security Program* financial plan information is available. Bureaus were asked to use fiscal year 2004 program dollar amounts, if they could be compiled timely and if they differed significantly from fiscal year 2005 figures.

### Programs

Programs descriptions come from the *Future Years Homeland Security Program* system and were developed by bureau personnel, Department headquarters budget staff and the Department's first Chief Financial Officer, Dr. Bruce Carnes. The Office of Personnel Management has been briefed on and did not object to the program definitions.

# Appendices

## Overall Risk Score

The 80 percent weighting on internal, human capital, and programmatic risk elements encourages program management for all Department programs to decrease improper payment risk factors. Program managers are encouraged to devote appropriate staff time to monitoring results, training staff, and undergoing rigorous audit testing.

## Selected for Statistical Sampling

Programs with overall risk scores above 3.0 will need to undergo statistical sampling to produce an auditable estimated erroneous payment amount and rate. If the amount and rate exceed the Office of Management and Budget (OMB) guidance limits, program managers will need to create, and have approved by the Office of Financial Management (OFM), a corrective action plan to meet the OMB standards. Quarterly progress updates will be due to OFM until goals are met.

## President's Management Agenda IPIA Initiative

Beginning in fiscal year 2005, the Department will brief OMB on the progress the agency has made in reducing improper payments. Briefings will be quarterly and are part of the *President's Management Agenda*. All program managers, whether undergoing IPIA improper payment sampling or not, are encouraged to minimize improper payment risk factors and notify OFM of any major achievements (or setbacks).

### Improper Payments Risk Matrix Grading Criteria for Risk Factors

(Scale 1=Lowest Risk, 5=Highest Risk)

#### Grading Standards

Factor	1	2	3	4	5
<b>Internal Payment Processing Control Risks</b>	<p>Completely automated payment system.</p> <p>Insignificant third party payments.</p> <p>Documented separation of duties.</p>	<p>All applicable grade 1 standards met except one.</p> <p>No known internal control risk.</p>	<p>Two applicable grade 1 standards not met.</p> <p>No known internal control risk.</p>	<p>Known minor internal control risk. Or</p> <p>More than two grade 1 standards not met.</p>	<p>Known major internal control risk.</p>

# Appendices

Factor	1	2	3	4	5
<b>Internal Payment Processing Control Risks (Continued)</b>	<p>No major known internal control issues.</p> <p>Rigorous front-end payment system edits.</p> <p>System produces high quality, reliable reports.</p> <p>Minimal number of contracts with more than 5 mods.</p>				
<b>Monitoring Control Risks</b>	<p>Ongoing quality assurance procedures.</p> <p>Timely contract closeout procedures.</p> <p>Monitoring of contractor expenditures.</p> <p>Quarterly reconciliations with Treasury.</p> <p>Financial statement audit testing.</p> <p>If grant monies distributed, then on-site monitoring of grantee programs for compliance with statutory and regulatory requirements.</p> <p>Consistent guidance to field office staff.</p>	<p>All applicable grade 1 standards met except one.</p> <p>No known monitoring control risk.</p>	<p>Two applicable grade 1 standards not met.</p> <p>No known monitoring control risk.</p>	<p>Known minor monitoring control risk. Or</p> <p>More than two grade 1 standards not met.</p>	<p>Known major monitoring control risk.</p>
<b>External Payment Processing Control Risks</b>	Based on 2003 Clearinghouse Single Audit data:	Based on 2003 Clearinghouse Single Audit data:	Based on 2003 Clearinghouse Single Audit data:	Based on 2003 Clearinghouse Single Audit data:	Based on 2003 Clearinghouse Single Audit data:



# Appendices

<b>Factor</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>External Payment Processing Control Risks (Continued)</b>	<p>&lt;1% of grantees had reportable conditions or material weaknesses</p> <p>&lt;5% of grantees were not considered at low risk or had questionable costs</p> <p>&lt;10% of grantees were not considered low risk</p>	<p>&lt;5% of grantees had reportable conditions or material weaknesses</p> <p>&lt;10% of grantees were not considered at low risk or had questionable costs</p> <p>&lt;20% of grantees were not considered low risk</p>	<p>&lt;10% of grantees had reportable conditions or material weaknesses</p> <p>&lt;20% of grantees were not considered at low risk or had questionable costs</p> <p>&lt;30% of grantees were not considered low risk</p>	<p>&lt;20% of grantees had reportable conditions or material weaknesses</p> <p>&lt;30% of grantees were not considered at low risk or had questionable costs</p> <p>&lt;40% of grantees were not considered low risk</p>	<p>Grade 4 Standards Exceeded. Or Known major external payment processing control risk.</p>
<b>Human Capital Risks</b>	<p>Low staff and management turnover.</p> <p>Adequate staff size.</p> <p>Non-contractor erroneous payment reduction expertise.</p> <p>Training given to all staff on reducing erroneous payments.</p> <p>Written procedures present for reducing erroneous payments.</p> <p>Targets developed and shared on reducing erroneous payments.</p> <p>Minimal expedited payments</p>	<p>All applicable grade 1 standards met except one.</p>	<p>Two applicable grade 1 standards not met.</p>	<p>Known minor human capital risk. or</p> <p>More than two grade 1 standards not met.</p>	<p>Known major human control risk.</p>

# Appendices

<b>Factor</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Age of Program</b>	Program greater than ten years old.	Program less than ten years old.	Program less than five years old.	Program less than two years old.	Program less than one year old.
<b>Complexity of Program</b>	<p>Readily identifiable and comprehensible laws and regulations that impact program payments.</p> <p>Straight forward, recurring calculation of payment amounts.</p> <p>Stable program in terms of minimal major changes or payment policy shifts.</p> <p>High quality, standardized guidance available on program administration.</p>	All applicable grade 1 standards met except one.	Two applicable grade 1 standards not met.	One applicable grade 1 standard met.	No applicable grade 1 standards met.
<b>Program Recipients</b>	<p>&gt;90% of all payment dollars paid directly to final recipients.</p> <p>&gt;75% of all payment dollars paid to governmental entities.</p> <p>&lt;500 payment recipients.</p>	<p>&gt;80% of all payment dollars paid directly to final recipients.</p> <p>&gt;50% of all payment dollars paid to governmental entities.</p> <p>&lt;2000 payment recipients.</p>	<p>&gt;60% of all payment dollars paid directly to final recipients.</p> <p>&gt;25% of all payment dollars paid to governmental entities.</p> <p>&lt;5,000 payment recipients.</p>	<p>&gt;40% of all payment dollars paid directly to final recipients.</p> <p>&gt;10% of all payment dollars paid to governmental entities.</p> <p>&lt;10,000 payment recipients.</p>	<p>&lt;40% of all payment dollars paid directly to final recipients.</p> <p>&lt;10% of all payment dollars paid to governmental entities.</p> <p>&gt;10,000 payment recipients.</p>
<b>Materiality of Operating Budget</b>	FY 2005 Congressional Operating Budget >\$100 million and <\$150 million.	FY 2005 Congressional Operating Budget >\$150 million and <\$350 million.	FY 2005 Congressional Operating Budget >\$350 million and <\$600 million.	FY 2005 Congressional Operating Budget >\$600 million and <\$1 billion.	FY 2005 Congressional Operating Budget >\$1 billion.

## Improper Payments Risk Matrix

All Bureaus

Data sorted by Bureau and Operating Budget

Code	Program Name	FY 2005 Operating Budget (\$000's)	Internal Controls Risk (Weight = 40%)			Human Capital Risk (Weight = 20%)			Programmatic Risk (Weighting = 40%)			Overall Risk Score	Selected for Statistical Sampling		
			Internal Payment Processing Controls	Monitoring Controls	External Payment Processing Controls	Avg. Human Capital Risk	Age of Program	Complexity of Program	Program Recipient	Avg.	Weighting = 80% Overall Score of Risk Factors			Weighting = 20% Materiality of Operating Budget	
CBPO100	Border Security Inspections and Trade Facilitation at Port of Entry	3,525,764	2	2	N/A	2.0	1	1	2	3	2.0	1.8	5	2.4	No
CBPO200	Border Security and Control Between Ports of Entry	1,856,244	2	2	N/A	2.0	1	1	2	3	2.0	1.8	5	2.4	No
CBPO301	Automation Modernization	449,909	2	2	N/A	2.0	1	3	2	3	2.7	2.1	3	2.3	No
CBPO101	Container Security Initiative (CSI)	126,096	2	2	N/A	2.0	1	3	2	3	2.7	2.1	1	1.9	No
CBPO103	Non-Intrusive Detection and Inspection Technology(NII)	115,159	2	2	N/A	2.0	1	2	2	3	2.3	1.9	1	1.7	No
CIS0004	Immigrant Services	459,000	1	1	1	1.0	1	5	1	1	2.3	1.5	3	1.8	No
CIS0005	Nonimmigrant Services	240,000	1	1	1	1.0	1	5	1	1	2.3	1.5	2	1.6	No
CIS0006	Citizenship Services	148,200	1	1	1	1.0	1	5	1	1	2.3	1.5	1	1.4	No
EPR003	Response	3,049,575	3	1	4	2.7	2	1	2	3	2.0	2.3	5	2.8	No
EPR001	Mitigation	2,312,058	3	1	4	2.7	2	1	1	3	1.7	2.1	5	2.7	No
EPR004	Recovery	1,829,914	3	1	4	2.7	2	1	1	3	1.7	2.1	5	2.7	No
EPR002	Preparedness	121,212	3	1	4	2.7	2	1	1	3	1.7	2.1	1	1.9	No
IAIPO004	Remediation & Protective Actions	231,832	1	1	1	1.0	1	5	1	1	2.3	1.5	2	1.6	No
IAIPO006	National Communications System	101,000	1	1	1	1.0	1	5	1	1	2.3	1.5	1	1.4	No
ICE0001.3	Custody Management	391,351	1	1	1	1.0	1	5	1	1	2.3	1.5	3	1.8	No
ICE0007	Federal Air Marshall Service	371,305	1	1	1	1.0	1	5	1	1	2.3	1.5	3	1.8	No
ICE0006	Protection of Federal Assets - FPS	289,652	1	1	1	1.0	1	5	1	1	2.3	1.5	2	1.6	No
ICE0003.3	Smuggling/Public Safety Investigations	255,990	1	1	1	1.0	1	5	1	1	2.3	1.5	2	1.6	No
ICE0001.6	Transportation and Removal Management	242,935	1	1	1	1.0	1	5	1	1	2.3	1.5	2	1.6	No
ICE0003.1	National Security Investigations	231,217	1	1	1	1.0	1	5	1	1	2.3	1.5	2	1.6	No
ICE0002	Air & Marine Operations (AMO)	226,996	1	1	1	1.0	1	5	1	1	2.3	1.5	2	1.6	No
ICE0003.2	Financial Investigations	191,992	1	1	1	1.0	1	5	1	1	2.3	1.5	2	1.6	No
ICE0001.5	Case Management	149,589	1	1	1	1.0	1	5	1	1	2.3	1.5	1	1.4	No
ODFP0002	Urban Areas Security Initiative	1,451,876	1	1	1	1.0	2	4	1	2	2.3	1.7	5	2.4	No
ODFP0001	State Formula Grants Program	1,430,875	1	1	1	1.0	2	2	1	2	1.7	1.5	5	2.2	No
ST0001	Biological Countermeasures	244,200	1	1	1	1.0	1	5	1	1	2.3	1.5	2	1.6	No
TSA00002	Screening Technology	1,179,870	2	2	N/A	2.0	1	3	1	1	1.7	1.7	5	2.3	No
TSA00003	Screening Support	857,779	2	2	N/A	2.0	1	3	1	1	1.7	1.7	4	2.1	No
TSA00005	Compliance and Enforcement	232,374	2	2	N/A	2.0	1	3	1	1	1.7	1.7	2	1.7	No
TSA00001	Screening Workforce	129,654	2	2	N/A	2.0	1	3	1	1	1.7	1.7	1	1.5	No
TSA00006	Transportation Security Enterprise	121,045	2	2	N/A	2.0	1	3	1	1	1.7	1.7	1	1.5	No
USCG0010	Ports Waterways and Coastal Security (PWCS)	1,405,621	2	2	1	1.7	1	1	1	2	1.3	1.4	5	2.1	No
USCG0001	Search and Rescue (SAR)	700,917	2	2	1	1.7	1	1	1	2	1.3	1.4	4	1.9	No
USCG003	Aids to Navigation (AtoN)	672,464	2	2	1	1.7	1	1	1	2	1.3	1.4	4	1.9	No
USCG0007	Drug Interdiction	647,107	2	2	1	1.7	1	1	1	2	1.3	1.4	4	1.9	No
USCG0006	Living Marine Resources (LMR)	510,656	2	2	1	1.7	1	1	1	2	1.3	1.4	3	1.7	No
USCG0002	Marine Safety	336,867	2	2	1	1.7	1	1	1	2	1.3	1.4	2	1.5	No
USCG0005	Marine Environmental Protection (MEP)	251,132	2	2	1	1.7	1	1	1	2	1.3	1.4	2	1.5	No
USCG0008	Migrant Interdiction	172,062	2	2	1	1.7	1	1	1	2	1.3	1.4	2	1.5	No
USCG0004	Ice Operations	136,095	2	2	1	1.7	1	1	1	2	1.3	1.4	1	1.3	No
USS001	Domestic Protectees	402,430	2	1	1	1.3	2	1	1	1	1.0	1.3	1	1.3	No
USS004	Financial Investigations	100,523	2	1	1	1.3	2	1	1	1	1.0	1.3	1	1.3	No

**Average Scores** 1.7 1.5 1.4 1.6 1.2 2.9 1.1 1.7 1.9 1.6 2.7 1.8

**Amount and Percentage of Operating Dollars Included** 27,900,536 100%

## Appendix B – Independent Auditor’s Report and Management’s Response to the Independent Auditor’s Report

Office of Inspector General

U.S. Department of Homeland Security  
Washington, DC 20528



**Homeland  
Security**

November 19, 2004

MEMORANDUM FOR: The Honorable Tom Ridge, Secretary  
FROM: *Richard L. Skinner*  
*for* Clark Kent Ervin, Inspector General  
SUBJECT: *Independent Auditors' Report on DHS' FY 2004 Financial Statements*  
Audit Report No. OIG-05-05

The attached report presents the results of the Department of Homeland Security's (the Department) financial statement audits for fiscal year (FY) 2004 and the seven months ended September 30, 2003. These audits were required by the *Accountability of Tax Dollars Act of 2002*. This report is incorporated into the Department's FY 2004 *Performance and Accountability Report*. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audits.

The Department experienced a setback in its financial reporting this year. For 2003, KPMG issued a qualified opinion on the Department's balance sheet and statement of custodial activity, meaning that these statements were presented fairly in all material respects, except for matters identified in the 2003 audit report. KPMG was unable to issue an opinion on any of the Department's FY 2004 financial statements, and the number of material weaknesses increased from 7 to 10 this year. Although this was a disappointment, it was not entirely a surprise given the number of material weaknesses at the Department and the accelerated reporting deadline. The conditions at Immigration and Customs Enforcement (ICE) are the most critical and, as discussed below, need immediate attention. In addition, the Office of the Chief Financial Officer (OCFO) needs additional resources if it is going to provide reliable financial reporting and leadership and technical support to the bureaus.

We hope that the Department can address these weaknesses in a timely fashion. If so, this year's results will represent only a temporary setback. My office will do all it can to assist the Department in this effort.

#### **Summary of Auditors' Report**

KPMG was unable to provide an opinion as to whether the Department's FY 2004 statements were presented fairly in all material respects. This disclaimer of opinion was due specifically to the circumstances at ICE, the inability to complete audit procedures over certain costs and budgetary transactions at the Coast Guard, the lack of reconciliations for intra-governmental balances, and the accelerated reporting deadline of November 15 that prevented an extension of audit procedures.

ICE did not adequately maintain its accounting records during FY 2004 and was unable to provide support for certain transactions. ICE's financial reporting environment underwent significant change

in FY 2004. Its legacy agency, the Immigration and Naturalization Service, and the former U.S. Customs Service, were reorganized into three new bureaus: ICE, Customs and Border Protection (CBP) and Citizenship and Immigration Services (CIS). ICE experienced significant budget difficulties during the year due at least in part to the late preparation of agreements to reimburse it for costs incurred on others' behalf. In FY 2004 ICE became the accounting services provider for several other Department components, as well as supporting its own and CIS' accounting needs. ICE also experienced significant staff turnover. As a result, ICE fell seriously behind in basic accounting functions, such as account reconciliations, analysis of material abnormal balances, and proper budgetary accounting. A void exists in the financial management infrastructure at ICE that likely will continue to jeopardize the integrity of DHS financial reporting until the fundamental issues of internal control, which includes human capital practices and oversight, have been addressed.

KPMG was unable to complete audit procedures over certain costs and budgetary transactions at the Coast Guard. The Coast Guard contributes significantly to many of the material weaknesses identified in the auditors' report, and the accelerated reporting deadline left insufficient time for the auditors to overcome the difficulties these weaknesses presented.

The Department had significant out-of-balance conditions with other federal entities that were not reconciled; therefore, it could not support certain balances on its own books. The most significant out-of-balance conditions existed at ICE. A lack of resources in the OCFO prevented the accountant responsible for intra-governmental reconciliations from researching and reconciling these differences in a timely manner during the year and at year-end.

The financial statement audit had to be completed three months earlier than it was last year due to the accelerated reporting deadline of November 15. The Department had little time to focus on correcting deficiencies from KPMG's last report before being subjected to another financial statement audit. To have a high likelihood of meeting an accelerated reporting deadline, the Department's internal controls needed to be much better. The Department entered this audit with seven material weaknesses and seven other reportable conditions related to financial reporting.

For 2003, KPMG issued a qualified opinion on the Department's balance sheet and statement of custodial activity, meaning that these statements were presented fairly in all material respects, except for matters identified in the audit report. The qualification on the balance sheet was related to lack of certain documentation for \$2.9 billion in property, plant, and equipment (PP&E) at the Coast Guard; KPMG's inability to observe physical count procedures or otherwise verify the recorded balance of \$497 million in operating materials and supplies (OM&S) at the Coast Guard; and lack of certain documentation related to \$3.3 billion in retirement benefits at the Secret Service and \$201 million in post-employment benefits at the Coast Guard. As described in the auditors' report, PP&E and OM&S remain material weaknesses at DHS, primarily due to conditions at the Coast Guard. The Secret Service corrected its documentation problem for its recorded retirement benefits.

## **Summary of Reports on Internal Control and Compliance with Laws and Regulations**

The FY 2004 auditors' report discusses 10 material weaknesses, three other reportable conditions in internal control, and four instances of non-compliance with laws and regulations, as follows:

### **Material Weaknesses**

- A. Financial Management Structure
- B. Financial Management and Oversight at Immigration and Customs Enforcement
- C. Financial Reporting in the Office of the Chief Financial Officer and DHS Components
- D. Financial Systems Functionality and Technology
- E. Fund Balance with Treasury
- F. Property, Plant, and Equipment
- G. Operating Materials and Supplies, and Seized Property
- H. Undelivered Orders, Accounts and Grants Payable, and Disbursements
- I. Budgetary Accounting
- J. Intra-governmental and Intra-departmental Balances

### **Other Reportable Conditions**

- K. Deferred Revenue on Immigration and Naturalization Applications
- L. Environmental Liabilities
- M. Custodial Activity Performed by Customs and Border Protection

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

- N. *Federal Managers' Financial Integrity Act of 1982*
- O. *Federal Information Security Management Act*
- P. *Single Audit Act Amendments of 1996*, Laws and Regulations Supporting OMB Circular No. A-50, *Audit Follow-up*, as revised, and the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended October 2000
- Q. *Improper Payments Information Act of 2002*

The auditors' report provides extensive information on the conditions creating the 10 material weaknesses identified in FY 2004, explains their causes, and provides recommendations. The most critical material weaknesses are described in the auditors' comment A, *Financial Management Structure*, and comment B, *Financial Management and Oversight at Immigration and Customs Enforcement*. The Department must address the OCFO's serious need for additional personnel with the specialized financial reporting experience and general ledger skills needed to ensure accurate, reliable, and timely financial reporting and to provide leadership, coordination, and technical support to the bureaus. The Department will have a much more difficult time correcting its material weaknesses and other reportable conditions without the addition of technical resources at the OCFO.

The Department must address the void in ICE's financial management infrastructure immediately to restore confidence its financial reporting. The auditors identified weaknesses in controls that might

have allowed ICE to become anti-deficient or prevented management from knowing whether ICE was anti-deficient. This condition is very serious for ICE and for the Department.

The 10 material weaknesses represent a net increase of three over last year. Five remain from last year; two are new; and three moved from reportable condition to material weakness this year. There are three reportable conditions: one remains from last year; one is new; and one is a consolidation of two reportable conditions from last year. The auditors' report provides a summary of the status of 2003 findings. The Department must reduce the number of these material weaknesses if it is to increase the likelihood of meeting the accelerated reporting deadlines.

The auditors also tested the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements materially relevant to its financial statements. KPMG identified four areas of non-compliance, as listed above. Two areas remain from last year; one is new; and one has been expanded.

KPMG is responsible for the attached auditor's report dated November 8, 2004 and the conclusions expressed in the report. We do not express opinions on the financial statements or internal control or conclusions on compliance with laws and regulations.

We request that a corrective action plan be provided to us within 90 days of the date of this letter. If you or your staff have questions, you may contact me, or a member of your staff may contact J. Richard Berman, Assistant Inspector General for Audits, at 202-254-4100.

Attachment





KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## INDEPENDENT AUDITORS' REPORT

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

We were engaged to audit the accompanying consolidated balance sheet of the U.S. Department of Homeland Security (DHS) as of September 30, 2004, and the related consolidated statements of net cost, changes in net position, financing, and custodial activity, and combined statement of budgetary resources (hereinafter referred to as "financial statements"), for the year then ended. We have audited the accompanying consolidated balance sheet of DHS as of September 30, 2003, and the related statement of custodial activity for the seven months then ended. In accordance with instructions received from the Office of Management and Budget (OMB), only the accompanying consolidated balance sheet and related statement of custodial activity are presented in comparative form with the prior period financial statements.

In connection with our fiscal year 2004 engagement, we were also engaged to consider DHS' internal control over financial reporting and to test DHS' compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these financial statements.

### Summary

As discussed in our report on the financial statements, the scope of our work was not sufficient to express an opinion on the financial statements as of, and for the year ended, September 30, 2004. Regarding the 2003 financial statements presented herein, as discussed in our report on the financial statements, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence related to certain financial statement balances, the accompanying consolidated balance sheet and statement of custodial activity, present fairly, in all material respects, the financial position of DHS as of September 30, 2003 and the related custodial activity for the seven months then ended, in conformity with accounting principles generally accepted in the United States of America.

As further described in Note 1 of the consolidated financial statements, DHS was established by the *Homeland Security Act of 2002* on November 19, 2002, as an Executive Branch Department of the United States government, and began operations on March 1, 2003.

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

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

- A. Financial Management Structure
- B. Financial Management and Oversight at Immigration and Customs Enforcement
- C. Financial Reporting in the Office of Chief Financial Officer and DHS Components
- D. Financial Systems Functionality and Technology
- E. Fund Balance with Treasury
- F. Property, Plant, and Equipment
- G. Operating Materials and Supplies, and Seized Property

- H. Undelivered Orders, Accounts and Grants Payable, and Disbursements
- I. Budgetary Accounting
- J. Intragovernmental and Intradepartmental Balances

Other Reportable Conditions

- K. Deferred Revenue on Immigration and Naturalization Applications
- L. Environmental Liabilities
- M. Custodial Activity Performed by Customs and Border Protection

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

- *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*
- *Federal Information Security Management Act (Electronic Government Act of 2002)*
- *Single Audit Act Amendments of 1996*, laws and regulations supporting OMB Circular No. A-50, *Audit Follow-up*, as revised, and the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended October 2000
- *Improper Payments Information Act of 2002*

As discussed in our report on the financial statements the scope of our work was not sufficient to express an opinion on the financial statements as of and for the year ended September 30, 2004, and accordingly, other internal control matters and other instances of non-compliance may have been identified and reported had we been able to perform all procedures necessary to express an opinion.

DHS was not subject to the requirements of the *Chief Financial Officers Act of 1990 (CFO Act)* during fiscal year 2004 and, consequently, was not required to comply with the *Federal Financial Management Improvement Act of 1996 (FFMIA)*. Therefore, we are not reporting herein on DHS's compliance with FFMIA. However, our testwork disclosed deficiencies in financial management information systems, the application of federal accounting standards, and recording of financial transactions, related to FFMIA that are presented within our report on internal control over financial reporting.

The following sections discuss the reasons why we are unable to express an opinion on the accompanying DHS financial statements as of and for the year ended September 30, 2004; our report on the consolidated balance sheet and statement of custodial activity as of and for the seven months ended September 30, 2003; our consideration of DHS's internal control over financial reporting; our tests of DHS's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

#### **Report on the Financial Statements**

We were engaged to audit the accompanying consolidated balance sheet of the U.S. Department of Homeland Security (DHS) as of September 30, 2004, and the related consolidated statements of net cost, changes in net position, financing, and custodial activity, and combined statement of budgetary resources, for the year then ended.

Immigration and Customs Enforcement (ICE), a significant component of DHS, did not adequately maintain its accounting records during fiscal year 2004, particularly with respect to balances transferred in from legacy agencies, intradepartmental and intragovernmental agreements and transactions, suspense accounts, costs and budgetary transactions, thus requiring extensive reconciliation and adjustment of these and other accounts at

year end, which ICE was unable to complete. Also, ICE management was unable to provide evidential matter or was not able to make knowledgeable representation of facts and circumstances, regarding certain transactions occurring in fiscal year 2004. DHS was unable to complete and review the accompanying financial statements, or reconcile its intragovernmental balances, prior to the completion of our procedures. In addition, we were unable to complete audit procedures over certain costs and budgetary transactions of the U.S. Coast Guard (Coast Guard) for the year ended September 30, 2004. For fiscal year 2004, OMB required that federal agencies submit audited financial statements by November 15, 2004. It was impracticable to extend the time period and procedures of our audit sufficiently to determine the extent to which the financial statements as of and for the year ended September 30, 2004, may have been affected by these conditions.

Because of the matters discussed in the previous paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements of DHS as of and for the year ended September 30, 2004.

Regarding the 2003 financial statements, we audited the consolidated balance sheet of DHS as of September 30, 2003, and the related consolidated statement of custodial activity for the seven months then ended. Further, we were engaged to audit the related consolidated statements of net cost, changes in net position, and financing, and the related combined statement of budgetary resources for the seven months ended September 30, 2003. In accordance with instructions received from the OMB, only the 2003 consolidated balance sheet and related statement of custodial activity are presented in comparative form with the fiscal year 2004 financial statements.

The Coast Guard, a component entity of DHS, was unable to provide sufficient documentation, prior to the completion of our audit procedures, to support the acquisition value and existence of property, plant, and equipment (PP&E), amounting to \$2.9 billion that is included within the \$9.1 billion net PP&E balance stated in the accompanying consolidated balance sheet as of September 30, 2003. We were unable to observe a sufficient number of the physical counts of operating materials and supplies (OM&S) conducted by the Coast Guard, and we were unable to satisfy ourselves by other means as to the fairness of the quantities used in the valuation of OM&S, that amounted to \$497 million included within the \$1.2 billion net OM&S, inventory, and stockpile balance stated in the accompanying consolidated balance sheet as of September 30, 2003. The U.S. Secret Service, another component of DHS, and the Coast Guard were unable to provide sufficient documentation, prior to the completion of our audit procedures, to support retirement and post-employment benefits amounting to \$3.3 billion and \$201 million, respectively, included within the \$25.3 billion military and other retirement balance stated in the accompanying consolidated balance sheet as of September 30, 2003.

Statement of Federal Financial Accounting Standard No. 3, *Accounting for Inventory and Related Property*, requires financial statement note disclosure of an analysis of prohibited seized property, including weight or item counts on-hand at the beginning of the year, seizures and disposals during the period, and on-hand weight or item counts at the end of the year (see Note 9). Because we were not engaged as auditors until after March 1, 2003, we were not present to observe the physical count of the prohibited seized property in DHS' possession on March 1, 2003, and we were unable to satisfy ourselves through other audit procedures as to beginning inventory quantities or seizures and disposals that occurred during the seven month period ended September 30, 2003.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence related to certain PP&E, OM&S, and retirement and post-employment benefits, as discussed in the fifth paragraph of this section, the accompanying consolidated balance sheet and statement of custodial activity present fairly, in all material respects, the financial position of DHS as of September 30, 2003, and the related custodial activity for the seven months then ended, in conformity with accounting principles generally accepted in the United States of America. The scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the consolidated statements of net cost, changes in net position, and financing, and combined statement of budgetary resources for the seven months ended September 30, 2003.

In addition, because of the matters discussed in the sixth paragraph of this section, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying disclosure in Note 9 of the weight and/or item counts of prohibited seized property transferred to DHS from legacy agencies on March 1, 2003, and seizures and disposals that occurred during the seven months ended September 30, 2003.

As further described in Note 1 of the consolidated financial statements, DHS was established by the *Homeland Security Act of 2002* on November 19, 2002, as an Executive Branch Department of the United States government, and began operations on March 1, 2003.

The information in the Management's Discussion and Analysis (MD&A), Required Supplementary Stewardship Information (RSSI), and Required Supplementary Information (RSI) sections is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We did not audit the MD&A, RSSI, and RSI and, accordingly, we express no opinion on it. Certain information presented in the RSSI and RSI is based on net cost and budgetary data from the consolidated statements of net cost and changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2004 and the seven months ended September 30, 2003, on which we have not expressed an opinion. Furthermore, pursuant to OMB instructions, in certain cases, DHS has presented annualized information in the MD&A and RSSI disclosures for the twelve months ended September 30, 2003, which includes the five months preceding March 1, 2003, the effective date of DHS' operations as an entity. We were unable to apply to the information certain procedures prescribed by professional standards within the timeframe established by OMB, because of the limitations on the scope of our audit, as described in the previous paragraphs of this section or our report. However, in fiscal year 2004, we noted that DHS did not present as RSI a schedule of budgetary resources by major budgetary account, as required, and DHS did not reconcile nonfiduciary accounts with its trading partners, as specified by OMB requirements, which could affect the intragovernmental information presented as RSI.

The information in the Performance Information and Other Accompanying Information sections of the DHS *Fiscal Year 2004 Performance and Accountability Report* are presented for purposes of additional analysis, and is not a required part of the financial statements. The Performance Information and Other Accompanying Information sections have not been subjected to auditing procedures, and accordingly, we express no opinion on this information.

#### **Internal Control over Financial Reporting**

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

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

We noted certain matters, described in Appendices I and II involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that reportable conditions A through J presented in Appendix I are material weaknesses. Appendix II represents other reportable conditions K through M.

We noted weaknesses in the DHS' FMFIA reporting process that are reported in Appendix I within Comment C – *Financial Reporting within the Office of Chief Financial Officer and DHS Components*.

As discussed in our report on the financial statements, the scope of our work was not sufficient to express an opinion on the financial statements of DHS as of and for the year ended September 30, 2004, and accordingly, other matters involving internal control over financial reporting may have been identified and reported had we been able to perform all procedures necessary to express an opinion.

\* \* \* \* \*

A summary of the status of 2003 reportable conditions is included as Appendix IV.

We also noted other matters involving internal control over financial reporting and its operation that we will report to the management of DHS and certain component entities.

#### **Internal Controls over Required Supplementary Stewardship Information**

We noted certain significant deficiencies in internal control over Required Supplementary Stewardship Information, discussed in Appendix I, that in our judgment, could adversely affect DHS's ability to collect, process, record, and summarize Required Supplementary Stewardship Information.

As discussed in our report on the financial statements, the scope of our work was not sufficient to express an opinion on the financial statements of DHS as of and for the year ended September 30, 2004, and accordingly, other matters involving internal control over Required Supplementary Stewardship Information may have been identified and reported had we been able to perform all procedures necessary to express an opinion.

#### **Compliance and Other Matters**

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

As discussed in our report on the financial statements, the scope of our work was not sufficient to express an opinion on the financial statements of DHS as of and for the year ended September 30, 2004, and accordingly, other instances of non-compliance may have been identified and reported had we been able to perform all procedures necessary to express an opinion.

DHS was not subject to the requirements of the CFO Act during fiscal year 2004 and, consequently, was not required to comply with the FFMA. Therefore, we are not reporting herein on DHS's compliance with FFMA. However, our testwork disclosed deficiencies in financial management information systems (e.g., OMB Circulars A-127, *Financial Management Systems*, and A-130, *Management of Federal Information Resources*), the application of federal accounting standards, and recording of financial transactions, related to FFMA, that are presented in Appendices I and II.

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

DHS management has indicated in a separate letter immediately following this report that it concurs with the findings presented in Appendices I, II and III of our report. Further, they have responded that they will take corrective action, as necessary, to ensure that the Chief Financial Officer and the respective bureau management within DHS address the matters presented herein.

## Responsibilities

**Management's Responsibilities.** The *Accountability of Tax Dollars Act of 2002* requires DHS to obtain annual financial statement audits.

DHS management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting, and preparing Management's Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information; and
- Complying with laws, regulations, contracts, and grant agreements.

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

**Auditors' Responsibilities.** As discussed in our report on the financial statements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements of DHS as of and for the year ended September 30, 2004. We considered the limitations on the scope of our work in forming our conclusions.

Relating to the 2003 financial statements presented herein, our responsibility is to express an opinion on the consolidated balance sheet of DHS as of September 30, 2003, and the related statement of custodial activity for the seven months ended September 30, 2003, based on our audit. Except as discussed in our report on the financial statements, we conducted our 2003 audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated balance sheet and statement of custodial activity are free of material misstatement.

An audit includes:

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

We believe that our 2003 audit provides a reasonable basis for our report on the consolidated balance sheet and the related statement of custodial activity as of and for the seven months ended September 30, 2003.

In connection with our fiscal year 2004 engagement, we considered DHS's internal control over financial reporting by obtaining an understanding of DHS's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our engagement was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon. Further, other matters involving internal control over financial reporting may have been identified and reported had we been able to perform

all procedures necessary to express an opinion on the financial statements of DHS as of and for the year ended September 30, 2004.

As required by OMB Bulletin No. 01-02, in fiscal year 2004, we considered DHS's internal control over Required Supplementary Stewardship Information by obtaining an understanding of DHS's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon. Further, other matters involving internal control over Required Supplementary Stewardship Information may have been identified and reported had we been able to perform all procedures necessary to express an opinion on the financial statements of DHS as of and for the year ended September 30, 2004.

OMB Bulletin No. 01-02 requires auditors, with respect to internal control related to performance measures determined by management to be key and reported in the MD&A, to obtain an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal controls over performance measures and, accordingly, we do not provide an opinion thereon. As discussed in our report on the financial statements, we did not apply procedures to the MD&A and performance measures presented in the DHS *Fiscal Year 2004 Performance and Accountability Report*.

In connection with our fiscal year 2004 engagement, we performed tests of DHS's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the DHS. We also note that while OMB Bulletin No. 01-02 requires certain testing and reporting on the compliance requirements of FFMIA, DHS is not subject to those requirements, and as a result, testing for compliance with FFMIA requirements was not an objective of our engagement. Further, other matters involving compliance with laws, regulations, contracts, and grant agreements may have been identified and reported had we been able to perform all procedures necessary to express an opinion on the financial statements of DHS as of and for the year ended September 30, 2004. Providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our engagement and, accordingly, we do not express such an opinion.

#### **Distribution**

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

**KPMG LLP**

November 8, 2004

## Independent Auditors' Report Appendix I – Material Weaknesses in Internal Control

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### A. Financial Management Structure

*Background:* The Chief Financial Officer (CFO) and his staff have been challenged by a myriad of issues since the inception of the Department of Homeland Security (DHS), many of which are one-time, unique matters, related to the set-up of the consolidated financial processes of DHS as a single operating entity. Management has taken several positive steps toward financial integration of a diverse group of operating components. However, despite the achievements and progress made in fiscal year (FY) 2004, the CFO has acknowledged that much work remains to complete a fully integrated financial management and reporting structure to accommodate all transferred agencies and programs and to fully support the DHS mission.

*Conditions:* The conditions described below are structural in nature and rise to the level of a material weakness because they affect the process that controls the overall integrity of DHS' consolidated financial statements, at a time when DHS has a number of other material weaknesses and reportable conditions that affect financial reporting. Under the current financial reporting structure, the Office of the Chief Financial Officer (OCFO) prepares financial statements only at the DHS consolidated level, from trial balances submitted by the bureaus to the OCFO. The bureaus are not required to prepare complete financial statements with footnotes and supplementary data that comply with generally accepted accounting principles (GAAP). The OCFO has minimal staff to consolidate the data received directly from the bureaus, ensure consistent accounting treatment for similar transactions among the bureaus, develop consolidated footnote and supplementary data and perform quality control procedures. The vast majority of DHS' financial reporting resources have remained decentralized at the bureau level.

During FY 2004 we noted the following conditions that affected the OCFO's ability to effectively manage the consolidated financial reporting process. The OCFO has not:

- Fully developed processes that bridge the gap between where DHS' consolidated reporting responsibilities lie (at the OCFO), and where most accounting resources and detailed bureau accounting knowledge needed to ensure accurate financial statements reside (at the bureaus);
- Hired or contracted a sufficient number of personnel with the experience and skills to properly perform and supervise financial reporting functions of an Executive Branch department. This condition also has been an impediment to the adoption of effective management and oversight practices, including the ability to separate workload among OCFO staff to allow for proper supervisory reviews and to provide appropriate back-up for key staff;
- Provided the DHS bureaus with sufficient management oversight and timely policy guidance to address accounting and reporting issues that cross multiple bureaus and affect the efficiency of bureau financial accounting and reporting operations; and
- Established sufficient internal controls over financial management and reporting processes to ensure that the five essential elements of internal control over financial reporting, as defined by the Comptroller General, are designed and operating effectively, as discussed below under *Criteria*.

Other conditions that affect the quality of financial reporting that exist in the DHS bureaus and OCFO are described in Comment C - *Financial Reporting in the Office of Chief Financial Officer and DHS Components*.

*Cause/Effect:* In 2004, DHS has been challenged with continuing the standing-up of a large, new, and complex Executive Branch department. The OCFO has had little time to focus on correcting deficiencies



## Independent Auditors' Report Appendix I – Material Weaknesses in Internal Control

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from our FY 2003 audit before being subjected to the FY 2004 audit process. Nevertheless, there remains a significant gap between the CFO's responsibility for financial management and reporting at DHS, and the sufficiency of resources to accomplish this objective.

As a result, the conditions described above continue to prevent DHS from timely preparation of accurate consolidated financial information and reports and have contributed to the conditions reported in Comment C of this Appendix. Lack of adequate processes and sufficient qualified staff or contractors at the DHS consolidated level have led management to place excessive reliance on the financial statement audit process to identify errors in accounts and deficiencies in processes and controls. DHS will continue to have difficulty complying with Federal accounting standards and requirements, and implementing appropriate internal control as defined by the Comptroller General, until the structure of the financial reporting process is fully assessed and adequate resources are provided to the OCFO.

*Criteria:* The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires that agencies establish internal controls according to standards prescribed by the Comptroller General and specified in the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (Standards)*. The GAO defines internal control as an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Further, the GAO *Standards* identify five standards to be implemented: control environment, risk assessment, control activities, information and communication, and monitoring. These standards cover controls such as human capital practices, supervisory reviews, segregation of duties, policies, procedures, and monitoring.

*Recommendations:* We recommend that the OCFO:

- a) Assess the structure and resourcing of the DHS financial reporting process and make appropriate improvements. These improvements could include establishing much stronger quality control processes at the OCFO, improving the policy guidance provided to DHS bureaus, and considering the benefits of requiring individual bureaus to prepare financial statements according to GAAP;
- b) Hire or contract additional accounting personnel that possess complementary technical skills to perform and supervise reporting and quality control functions, including monitoring of bureau reporting processes;
- c) Continue the hiring process for a Deputy CFO who possesses the knowledge to assist the CFO in driving internal controls and best practices into department and bureau financial management operations. In addition, the Deputy CFO should have extensive knowledge of GAAP, as it applies to Federal entities, and the GAO's *Standards*;
- d) Be more active in identifying and promptly addressing intra-bureau financial management and reporting issues, especially where bureau financial managers do not have sufficient authority or jurisdiction to resolve matters; and
- e) Perform an evaluation of the consolidated financial reporting process, using the criteria defined by the Comptroller General, to ensure that financial processes are designed and implemented with proper internal control, including the five essential control elements (i.e., control environment, risk assessment, control activities, information and communication, and monitoring). Further, consolidated and bureau level financial statement audits cannot be relied upon as an internal control.

## Independent Auditors' Report Appendix I – Material Weaknesses in Internal Control

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### B. Financial Management and Oversight at Immigration and Customs Enforcement

*Background:* Immigration and Customs Enforcement (ICE) is a significant bureau of DHS with over \$2.8 billion in annual funding. ICE was created when DHS reorganized the legacy Immigration and Naturalization Service (INS) and U.S. Customs Service into three new bureaus: ICE, Customs and Border Protection (CBP) and Citizenship and Immigration Services (CIS). ICE inherited its financial organization and systems from the former INS. ICE also serves as the accounting services provider for a significant number of DHS directorates and components, including: CIS, Science and Technology (S&T), Information Analysis and Infrastructure Protection (IAIP), DHS Management, and Border Transportation and Security (BTS) Headquarters. Together, these operations represent approximately 10 of the former 22 legacy agencies and programs that transferred to and formed DHS on March 1, 2003, and represent approximately \$6.7 billion or 20 percent of the total DHS FY 2004 budget authority.

During FY 2004, ICE, CBP and CIS, referred to as the Tri-bureaus, entered into significant agreements to reorganize and exchange certain operations. For example, Border Patrol operations, and Immigration Inspection activities, including its assets and approximately 20,000 employees, were transferred to CBP from ICE. In addition, during FY 2004, ICE entered into more than 30 shared services and reconciliation agreements with various entities inside and outside DHS, for reimbursement of costs incurred on their behalf. As a result, ICE's financial reporting environment underwent significant change in FY 2004. Further, ICE experienced significant turnover in its financial personnel starting in the summer of 2003, resulting in the loss of key individuals who had important day-to-day knowledge of ICE's accounting operations and financial reporting processes.

*Conditions:* The conditions described below are organizational weaknesses specific to ICE's financial management. Other conditions that affect the quality of ICE's financial reporting are described in Comment C in this Appendix. We noted that during FY 2004, ICE did not have:

- A thorough, well-designed plan for transition of the accounting operations of major DHS directorates and components to its accounting systems. The transition of accounting responsibility for S&T, IAIP, and other DHS components to ICE during FY 2004 was flawed, and resulted in material errors, irregularities, and abnormal balances in the DHS consolidated financial statements that existed for most of FY 2004. The pervasiveness of the errors, in both proprietary and budgetary accounts, prevented us from completing our audit procedures for ICE and the components it serviced in FY 2004.
- In conjunction with the OCFO, a process to establish and maintain more than 30 important shared services agreements with trading partners, particularly those agreements dealing with the Tri-bureaus. The preparation of these agreements late in the fiscal year delayed ICE's receipt of cost reimbursements and contributed to significant budget difficulties. Further, the delay in preparing the agreements left little time to determine whether the allocation of expenses between the Tri-bureaus was appropriate and equitable. Many of these agreements were not executed until well into the fourth quarter of FY 2004.
- A blueprint for identifying and fixing deficiencies in its accounting and financial reporting processes, including control weaknesses, human capital needs, and information technology requirements. ICE financial systems, processes, and control activities were inadequate to provide accounting services for itself and five other major DHS operating units. Responsibility for financial reporting was fragmented among multiple organizations and offices, leading to a lack of communication and coordination within ICE.

## Independent Auditors' Report Appendix I – Material Weaknesses in Internal Control

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- Sufficient leadership and guidance, both from the OCFO and within its own management ranks, particularly given FY 2004 changes and difficult circumstances, and it lacked sufficient numbers of qualified financial managers and staff to fulfill its accounting responsibilities. ICE fell seriously behind in performance of even basic accounting functions, such as account reconciliations, analysis of material abnormal balances, and proper budgetary accounting, which prevented it from submitting timely and accurate periodic financial reports to DHS during FY 2004. Specifically, during FY 2004 ICE financial managers and staff did not:
  - Correctly apply Federal accounting standards, in many instances, to ensure accurate and reliable financial reporting. ICE was unable either to determine or record the proper entries to its accounts to make them balance correctly and at the end of the year had to rely on the OCFO's general ledger accountant to make the entries for them.
  - Develop and communicate accounting policies and procedures throughout ICE and the components it serviced to ensure accuracy and consistency in financial reporting, particularly for significant account balances such as intragovernmental and intradepartmental receivables and payables, accounts payable and undelivered orders, and environmental, legal, and post-employment benefits information;
  - Timely respond to data requests from the OCFO during the year; and
  - Establish adequate internal controls to reasonably ensure the integrity of financial data and that adhered to GAO's *Standards*. For example, there were insufficient supervisory reviews for journal entries made to the general ledger.

*Cause/Effect:* Several events during FY 2004 led to the above conditions. The combination of these events, together with managing and accounting for its own daily operations, severely taxed the resources of ICE. Specifically,

- ICE absorbed substantial additional workload in FY 2004 by taking on the accounting functions for several major DHS components and implementing the reorganization creating the Tri-bureaus, with the attendant transfer-in and transfer-out of operations and assets;
- ICE was required to establish significant shared services agreements both within and outside DHS. However, ICE was unable to get agreement on significant reimbursable amounts from the other DHS bureaus until late in the fiscal year;
- The accounting records and data of other DHS components transferred to ICE from legacy agencies during FY 2004, i.e., components of S&T and IAIP were not well organized, lacked detail support for balances, were not always reconciled, and were not timely delivered to ICE. In addition the decision to transfer the accounting functions of legacy agencies was not finalized until late in FY 2003, leaving little time to thoroughly plan the FY 2004 transition;
- ICE experienced turnover in several key accounting positions starting in the summer of 2003, and had insufficient resources throughout the year to properly address many of these conditions; and
- ICE did not significantly modify its procedures to meet the FY 2004 accelerated reporting deadlines.

It should also be noted that, although the DHS CFO became involved in addressing the disagreements among the Tri-bureaus related to shared services, agreements were not reached until late in the fiscal year, after absorbing much management attention and creating much uncertainty for ICE during the fiscal year.

## Independent Auditors' Report Appendix I – Material Weaknesses in Internal Control

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Further, the OCFO was unable to provide sufficient timely assistance to help address the other conditions cited above in a timely manner.

The current conditions at ICE indicate a void in its financial management infrastructure that likely will continue to jeopardize the integrity of DHS financial reporting until the fundamental issues of process and internal control, which includes management, human capital, and oversight, have been addressed. These conditions extend to the integrity of accounting data that is used to track the obligation and expenditure of appropriated amounts. ICE management has inappropriately placed reliance on the external audit process to identify errors and control deficiencies. Due to a lack of resources, ICE management has become reactive rather than proactive in addressing accounting errors and problems and has fallen behind in their plan for building sound financial management and systems infrastructure.

*Criteria:* FMFIA requires that agencies establish internal controls according to standards prescribed by the Comptroller General and specified in the GAO's *Standards*. According to these standards, management should ensure that they have an organizational structure that supports the planning, directing, and controlling of operations to meet agency objectives; clearly defines key areas of authority and responsibility; and provides for appropriate lines of reporting. Management is to identify the knowledge and skills needed for various jobs and establish good human capital practices. The standards also define internal control as an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

*Recommendations:* We recommend that ICE, in coordination and with the assistance of the OCFO:

- a) Develop additional detailed accounting policies and procedures governing all areas of its financial management process. These procedures should be specific enough to be considered a blueprint for performing the accounting operations for ICE, as well as for all of the bureaus for which it provides accounting services;
- b) Establish policies and procedures to obtain agreement on all shared services agreements among the Tri-Bureaus within the first quarter of the fiscal year. The OCFO must also maintain a leadership role in the process, to ensure the agreements are executed timely and equitably;
- c) Perform a comprehensive internal control self-assessment to identify areas where its financial operations are not compliant with FMFIA, GAO's *Standards*, and OMB Circular A-127, *Financial Management Systems*; and
- d) Hire and develop accounting staff with appropriate skills to implement and maintain an effective financial reporting process and internal controls that will ensure the integrity of financial data submitted monthly to the OCFO.

### C. Financial Reporting in the Office of Chief Financial Officer and DHS Components

*Background:* Financial reporting at DHS is dependent upon the quality of financial reporting at its individual bureaus and the ability of the OCFO to consolidate information timely and consistently. The consolidation process is accomplished, in large part, by using the Department of the Treasury's (Treasury) *Treasury Information Executive Repository* (TIER), a data warehouse through which DHS bureaus submit their financial information. TIER interfaces with the CFO Vision software, which is used to prepare DHS consolidated and individual bureau financial statements. The OCFO is using TIER as a temporary system

## Independent Auditors' Report Appendix I – Material Weaknesses in Internal Control

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solution until a permanent financial reporting system architecture for DHS can be implemented, which is currently under development and known as the “*eMerge2*”<sup>1</sup> program.

The OCFO, working with the bureaus and the auditors, developed a timeline of activities, including TIER submission dates that should have allowed us to complete our audit work by the accelerated November 15, 2004 reporting deadline. The audit plan depended significantly on the preparation of a draft Section 2, *Financial Information*, of the Performance and Accountability Report (PAR)<sup>2</sup>, based on accurate June 30, 2004 balances and its submission to us by late July.

*Conditions:* We noted the following internal control weaknesses related to financial reporting in the OCFO and DHS bureaus:

1. The OCFO did not:

- Adhere to the schedule set early in the audit process to successfully meet the accelerated reporting deadline of November 15, 2004. For example, the OCFO could not prepare timely June 30 financial statements because some bureaus did not meet the agreed-upon submission dates, and fell behind in preparing the requested portions of a draft Section 2.
- Prepare a balanced<sup>3</sup> consolidated financial statement until November 2004. In addition, the consolidated financial statement disclosures and notes contained critical flaws, inconsistencies and errors when provided to us approximately one week before the filing deadline of November requiring material adjustments to correct.
- Prepare accurate periodic, e.g., quarterly, consolidated financial statements, as required by OMB, and FACTS II<sup>4</sup> submissions, as required by Treasury, due primarily to delays in bureau submissions of TIER inputs. Our review of the quarterly submissions also indicated that the OCFO made adjustments to the quarterly FACTS II submissions, often without support, to ensure validity checks would be met.
- Implement sufficient procedures and monitoring controls to ensure that monthly TIER submissions received from bureaus were prepared timely and accurately. The OCFO performed only limited data quality and reasonableness checks for TIER and CFO Vision input and output, and did not require the bureaus to verify the accuracy of financial reports produced by TIER. The OCFO has not required the bureaus to use recently installed TIER analytical tools to improve the integrity and reliability of financial data at the bureau.
- Implement sufficient monitoring control procedures to verify that bureaus were complying with its financial reporting policies and procedures relating to all elements of the DHS PAR, including the financial statements, related notes, Management’s Discussion and Analysis (MD&A), RSI, RSSI, and other financial reporting matters, such as proper identification and reconciliation of intra-departmental eliminating entries. Also, the instructions issued by the OCFO did not

<sup>1</sup> *eMerge2* stands for “Electronically Managing Enterprise Resources for Government Effectiveness and Efficiency”.

<sup>2</sup> PAR Section 2 contains: the financial statements with note disclosures, Required Supplementary Information (RSI), and Required Supplementary Stewardship Information (RSSI).

<sup>3</sup> Balanced in this context means: assets equal liabilities plus net position, on a consolidated basis, as presented on the balance sheet.

<sup>4</sup> FACTS II stands for *Federal Agencies’ Centralized Trial-Balance System II*. FACTS II is a Treasury computer program that allows agencies to submit to Treasury one set of accounting data. Reports produced from this data include adjusted trial balances and budgetary reports.

## Independent Auditors' Report Appendix I – Material Weaknesses in Internal Control

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address unique reporting considerations existing in some bureaus. Further, the OCFO was late to require the bureaus to complete the GAO's *Checklist for Federal Accounting, Reporting, and Disclosures*, and as a result, several bureaus were late with these submissions.

- Implement procedures and related controls that will ensure accuracy and completeness in the FMFIA reporting process. In addition, we noted that DHS has not reported some material weaknesses that we have reported herein. We also noted a lack of timeliness in reporting by some bureaus, and corrective actions and milestones were not presented for some findings.
2. Coast Guard:
    - The financial reporting process is complex and labor-intensive and requires a significant number of “on-top” adjustments (adjustments made outside the core accounting system for presentation of financial information given to DHS for consolidation). In addition there is a significant amount of manual integration of data from three separate general ledger systems and corrections to overcome system and process deficiencies;
    - The processes that finance center personnel used for making year-end closing entries did not consistently include sufficient supporting documentation or internal controls at an appropriate level, such as management review and approval of individual adjusting entries. In addition, the software application used to record on-top adjustments did not consistently include the reason codes for individual entries;
    - The accuracy of financial information is highly dependent on the knowledge and experience of a limited number of key financial personnel, rather than on clearly documented procedures manuals and process flow documentation; and
    - Weaknesses in financial management oversight hinder its ability to prepare accurate, complete, and timely financial information for consolidation into the DHS financial statements. As described above and in the rest of this Appendix, we noted weaknesses related to the financial reporting process; maintenance and quality of financial records; policies and procedures; and the application of some aspects of financial accounting standards.
  3. ICE, Emergency, Preparedness and Response (EPR) and the Office of State and Local Government Coordination and Preparedness (SLGCP, formerly the Office for Domestic Preparedness) have not adopted rapid close procedures to ensure that accurate and timely TIER submissions are consistently performed during the year. Similar to last year, policies and procedures for exporting data from the general ledger for periodic TIER submissions were not documented, quality control reviews of financial reports were not regularly performed, documentation of on-top adjustments was lacking, and/or TIER input was not routinely reconciled with CFO Vision output provided by the OCFO.
  4. Coast Guard, SLGCP, and ICE did not have effective financial information systems or sufficiently documented processes to accumulate present cost data by DHS strategic goal, as required by Statement of Financial Accounting Standard (SFAS) No. 4, *Managerial Cost Accounting Concepts and Standards*. In addition, these bureaus, and EPR, did not have documentation to support the process to validate that the full cost by strategic goal, as presented in the notes to the consolidated financial statements, was materially consistent with actual costs incurred.
  5. At EPR, the monthly TIER submissions did not accurately and completely reflect the financial transactions of the Strategic National Stockpile (SNS). By law, EPR did not have full control over the accounting process for the SNS, and it was unable to implement an effective process to obtain financial information from other Federal entities involved in the management and administration of

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the SNS. Consequently, EPR and the OCFO estimated and recorded financial activity, e.g., expenses, based on budgets instead of actual transactions, and used estimates to record certain amounts of the net SNS transfer-out balance presented in the statement of net position, which could not be substantiated with actual source documentation supporting the balances.<sup>5</sup>

6. Through a reimbursable agreement, SLGCP's legacy agency provides financial processing and reporting services to SLGCP.<sup>6</sup> Although SLGCP management has been involved in the FY 2004 financial statement audit process, they are not actively involved in the financial reporting of SLGCP activities. In addition, SLGCP has not obtained a thorough understanding of control activities over the financial reporting processes performed by its accounting services provider on its behalf.

A further discussion of ICE's financial reporting problems is given in Comment B - *Financial Management and Oversight at Immigration and Customs Enforcement*.

*Cause/Effect:* The OCFO and bureau financial management continued to restructure accounting and financial reporting processes during FY 2004, however, late submission of the DHS FY 2003 PAR coupled with accelerated reporting in FY 2004 left the OCFO and bureau financial managers little time to make substantial changes and improve controls before this year's audit cycle began. The financial reporting weaknesses at the OCFO can be attributed directly to weaknesses described in Comment A, *Financial Management Structure*. As already described above, some bureaus have not developed adequate policies and procedures to perform a rapid close of monthly activity and accurately export data from the general ledger for periodic TIER submissions. This has caused errors and delays in DHS financial reporting. The conditions at Coast Guard have surfaced because of Coast Guard's greater relative size within DHS. Coast Guard will need time, appropriate skilled personnel, and resources to correct these weaknesses.

EPR was unable to adequately maintain financial records for the SNS because it did not have full control over the process. Four different Federal entities played a role in SNS accounting. Because all of these entities were unable to coordinate a timely reconciliation of their records and activities, EPR was unable to maintain accurate balances for SNS' obligations, undelivered orders (UDOs), operating expenses, inventory, and accounts payable during FY 2004. SNS was transferred out of DHS to the Department of Health and Human Services in August 2004.

Regarding the presentation of cost data by responsibility segment and major program, most DHS bureaus use financial management systems developed several years ago, before the creation of DHS and well before DHS adopted its strategic goals. Consequently, many information systems do not contain financial data in a format that facilitates full compliance with SFFAS No. 4, e.g., the allocation of costs to programs and reporting of costs by strategic goal within the DHS structure. As a result, many bureaus must perform manual analyses and computations to comply with this accounting standard.

SLGCP places a significant amount of reliance on the legacy agency to process and report its transactions because it lacks resources to perform effective oversight of the financial reporting process and related control activities performed on its behalf. As a result, SLGCP lacks assurance that the processing of its financial activities coincides with its business operations and are accurately reported and properly controlled.

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<sup>5</sup> By law, SNS was transferred to the Department of Health and Human Services in August 2004.

<sup>6</sup> The Office of Justice Programs, a component of the Department of Justice, is SLGCP's legacy agency, and also referred to herein as SLGCP's accounting services provider.

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*Criteria:* FMFIA requires that agencies establish internal controls according to standards prescribed by the Comptroller General and specified in the *GAO Standards*. These standards define internal control as an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. The *GAO Standards* require that internal controls be documented in management directives, administrative policies, or operating manuals; transactions and other significant events be clearly documented; and information be recorded and communicated timely with those who need it within a timeframe that enables them to carry out their internal control procedures and other responsibilities. According to these standards, the five essential control elements are: control environment, risk assessment, control activities, information and communication, and monitoring.

*Recommendations:* We recommend that:

1. The OCFO:
  - a) Obtain the necessary skills and resources, through appropriate human resource practices or contracting, to ensure it meets internal deadlines that are part of the accelerated reporting timeline, to assist the bureaus to do the same, to meet and properly support other quarterly external reporting deadlines, and to advise the bureaus as described in b) below;
  - b) Assist the bureaus with an assessment to determine the reasons for TIER reporting delays; provide management oversight to correct weaknesses; streamline the reporting process; and enhance reporting efficiency in the bureaus;
  - c) Establish written policies and procedures that, through implementation, will provide reasonable assurance that the inputs and outputs to and from TIER and CFO Vision are materially accurate and complete. These procedures should include periodic Bureau reconciliations of TIER inputs to TIER-produced trial balances and CFO Vision Bureau financial statements, timely confirmations to the OCFO that such reconciliations have been completed and reconciling items have been resolved. Conduct training on the use of TIER analytical tools to improve the integrity of financial data submitted to the OCFO;
  - d) Develop and implement monitoring controls that will ensure that the bureaus comply with the DHS financial reporting policies and procedures for the PAR, including financial statements and notes, MD&A, RSI, RSSI, and other financial reporting matters. Implement an OCFO process to prepare financial statements and notes, MD&A, RSSI and RSI that are in full compliance with required reporting standards. This process should include at a minimum the bureaus' completion of GAO's *Checklist for Federal Accounting, Reporting, and Disclosures*, in time to prepare an up-to-date draft PAR Section 2 according to the internal accelerated reporting timeline. The bureaus should have a significant role and responsibility in preparing and reviewing the completed PAR. The checklist is a tool to help the OCFO prepare financial statements according to GAAP, and it is particularly needed in this decentralized reporting environment and in the absence of other adequate controls; and
  - e) Provide instruction and management oversight of the FMFIA evaluation process to improve comprehensiveness of review, coordination with the external audit process, and consistency in reporting by the bureaus.



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2. Coast Guard:
  - a) Conduct an assessment of its current financial reporting process, with the goal of implementing appropriate internal controls and reducing complexity;
  - b) Improve documentation for year-end closing entries, including management review and approval and clear identification of all on-top adjustments with all associated account entries;
  - c) Reduce the reliance on the limited number of key personnel by cross training personnel and documenting the financial reporting process;
  - d) Develop procedures and internal controls for providing oversight and guidance for operating units, and program offices that provide key financial information; and
  - e) Evaluate the existing financial management organizational and internal control structure and conduct an assessment to determine the number of personnel needed along with requisite skills and abilities and make improvements as indicated.
3. ICE, EPR, and SLGCP:
  - a) Conduct an assessment of the monthly closing process to identify and correct weaknesses that impede timely and efficient reporting processes; reduce the number of on-top adjustments and improve documentation for them; improve integration of information systems; and design a quicker, more accurate monthly closing process and TIER submission. Perform regular quality control reviews of financial reports;
  - b) Reconcile CFO Vision financial statements to TIER input on a monthly basis, with differences investigated and resolved;
  - c) Cross-train additional personnel in the financial reporting and TIER submission process, especially in the quality assurance review of the data submitted, to ensure that sufficient resources are available to assist at peak financial reporting periods; and
  - d) Document key Standard Operating Procedures (SOPs) for significant financial reporting processes.
4. Coast Guard, EPR, SLGCP, and ICE should consider modifying information systems, or if not feasible, develop manual processes, to accumulate, present, and validate cost data by DHS strategic goal, as required by SFFAS No. 4. SLGCP should work with its legacy agency to develop automated or manual processes to accumulate and present cost data by DHS strategic goal. These bureaus should thoroughly document the process beginning with data sources through preparation and delivery of the note disclosure to the OCFO at a level of detail appropriate to fully define and document all internal controls embedded in the process.
5. SNS was transferred to HHS on August 13, 2004, and consequently, we have not included recommendations for management related to SNS.
6. SLGCP should designate an official to perform a financial oversight role and take responsibility for monitoring the financial processing and reporting activities performed by the accounting services provider on SLGCP's behalf.

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**D. Financial Systems Functionality and Technology**

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

During FY 2004, DHS took many actions to improve its IT general control environment and to address prior year general IT control issues. For example, DHS implemented an automated security certification and accreditation (C&A) tool and improved its software change control policies and practices. In addition, during FY 2004 DHS awarded a contract for the eMerge<sup>2</sup> program, which will help consolidate financial management and IT activities across DHS. Despite these improvements, as in FY 2003, we again identified significant general IT control weaknesses related to financial reporting at DHS and its bureaus, which, collectively, limit DHS' ability to ensure that critical financial and operational data is maintained in a manner to ensure confidentiality, integrity, and availability.

*Conditions:* As in FY 2003, we noted the following IT and financial system control and functionality weaknesses at DHS and its bureaus:

1. Regarding entity-wide security program planning and management, we noted:
  - Despite the implementation of an automated tool to assist with the DHS security C&A efforts, such efforts were still not completely implemented in a manner that ensures the detection and prevention of technical security weaknesses;
  - Security training and awareness programs, especially those related to the detection and prevention of technical weaknesses, can be improved;
  - Security plans did not consistently document existing system security controls, were incomplete, or otherwise did not meet requirements set forth in OMB Circular A-130, *Management of Federal Information Resources*; and
  - Security risk assessments were not regularly performed and were not performed consistently.
2. Regarding access controls, we noted:
  - Instances of missing user passwords on key servers and databases, weak user passwords, and weaknesses in user account management. Also, we noted several cases where user accounts were not periodically reviewed for appropriateness, including authorizations to use group user accounts and excessive access privileges; and
  - Instances where workstations, servers, or network devices were configured without necessary security patches, or were not configured in the most secure manner. We also identified many user accounts that were not configured for automatic log-off or account lockout.

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3. Regarding system software, we noted:
  - Instances where policies and procedures for restricting and monitoring access to operating system software were not implemented, or were inadequate. In some cases, the ability to monitor security logs did not exist; and
  - Changes to sensitive operating system settings were not always documented.
4. Regarding segregation of duties, we noted:
  - Instances where individuals were able to perform incompatible functions, such as the changing, testing, and implementing software, without sufficient compensating controls in place; and
  - Instances where key security positions were not defined or assigned, and descriptions of positions were not documented or updated.
5. Regarding service continuity, we noted:
  - Several bureaus had incomplete business continuity plans and systems with incomplete disaster recovery plans. Some plans did not contain current system information, emergency processing priorities, procedures for backup and storage, or other critical information; and
  - Some bureau service continuity plans were not consistently tested, and individuals did not receive training on how to respond to emergency situations.

*Cause/Effect:* Many of these weaknesses were inherited from the bureaus that came into DHS, and will take several years to fully address. Management has undertaken a complicated task of merging numerous and varying financial management systems and control environments into a DHS environment. At many of the larger bureaus, IT and financial system support operations are decentralized, contributing to challenges in integrating DHS IT and financial operations. In addition, financial system functionality weaknesses can be attributed to non-integrated legacy financial systems that do not have the embedded functionality called for by OMB Circular A-127.

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

*Recommendations:* DHS needs to place further emphasis on the monitoring and enforcement of policies and procedures through the performance of periodic security control assessments and audits. Focus should be placed on implementing and enforcing a DHS-wide security C&A program, and technical security control training for system administrators and security officers. Many of the technical issues identified during our review, which were also identified during FY 2003, such as weak technical security controls and the lack of contingency planning, can be addressed through a more effective security C&A program and security training program.

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We recommend that DHS:

1. For entity-wide security program planning and management, ensure that:
  - a) Implementation and enforcement of the C&A program continues;
  - b) A DHS-wide security training and awareness program is designed and implemented consistent with OMB and NIST guidance. A key focus of the training program should be on the detection and prevention of technical weaknesses;
  - c) Information security planning efforts more consistently follow relevant Federal guidance (OMB and NIST);
  - d) Security risk assessments are completed in a consistent manner per OMB and NIST guidance; and
  - e) The above recommended entity-wide security efforts are implemented in a consistent manner across bureaus.
2. For access control, ensure that:
  - a) Password controls meet DHS password requirements and are enforced on all systems;
  - b) A password account management process is implemented within the bureaus to ensure the periodic review of user accounts;
  - c) A DHS-wide patch and security configuration process is designed and implemented;
  - d) A vulnerability assessment process is implemented, whereby systems are periodically reviewed for security weaknesses; and
  - e) The above recommendations are included as part of the DHS C&A program.
3. For system software, ensure that bureau personnel comply with the established policies and procedures for monitoring, use, and changes related to operating systems.
4. For segregation of duties, ensure that:
  - a) Responsibilities are documented so that incompatible duties are consistently separated. If this is not feasible given the smaller size of certain functions, then sufficient compensating controls, such as periodic peer reviews, should be implemented; and
  - b) Policies and procedures are developed and documented to assign key security positions and maintain current position descriptions.
5. For service continuity, ensure that:
  - a) Bureaus develop and implement complete business continuity plans and system disaster recovery plans;
  - b) Bureau-specific and DHS-wide testing of key service continuity capabilities are performed; and
  - c) A DHS-wide service continuity training program is designed and implemented.

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### E. Fund Balance with Treasury

*Background:* Fund Balance with Treasury (FBWT) represents accounts held at Treasury from which an agency can make disbursements to pay for its operations. Regular reconciliation of an agency's records with Treasury for FBWT is essential to monitoring and safeguarding these funds, improving the integrity of various U.S. Government financial reports and providing a more accurate measurement of budget resources and status. FBWT at ICE, and the other DHS bureaus it services, and the Coast Guard totaled approximately \$6.8 billion or 14 percent of total DHS assets at September 30, 2004. The majority of these funds represented appropriated amounts that were obligated but not yet disbursed at September 30, 2004.

*Conditions:* We noted the following internal control weaknesses related to FBWT:

At ICE and Coast Guard:

- Did not complete timely reconciliations of their FBWT accounts during the year, as required by the Treasury Financial Manual (TFM), by performing all of the required procedures to completely reconcile FBWT, including reconciliations to FMS 6652, *Statement of Differences*; FMS 6653/54 *Undisbursed Appropriation Account Ledger/Trial Balance*; SF 224 *Statement of Transactions*; and/or FMS 6655 *Receipt Account Trial Balance/Ledger*, and did not clear items carried in suspense clearing accounts timely during the year. At times, hundreds of unresolved items were carried in suspense, some of which were more than a year old, totaling several hundred million dollars in unreconciled balances; and
- Lacked written SOPs to direct and document the correct reconciliation processes and internal controls to ensure that monthly collection and disbursement activity were reported accurately and timely to the Treasury.

*Cause/Effect:* Turnover in key personnel and a general lack of appropriate resources contributed to the FBWT reconciliation conditions at ICE. The Coast Guard did not complete timely reconciliations because of continued difficulties in overcoming the FY 2003 implementation of a new financial system. Although by September 30, 2004, the Coast Guard had completed their FBWT reconciliation, they had not completed the reconciliation timely during the year. Failure to implement timely and effective reconciliation processes could increase the risks of fraud and mismanagement of funds; lead to inaccurate financial reporting; and affect the Government's ability to effectively monitor the status of its budget.

*Criteria:* The TFM<sup>7</sup> states, "Federal agencies must reconcile their Standard General Ledger (SGL) account No.1010 and any related sub-accounts, with the FMS 6652, 6653, 6654 and 6655 on a monthly basis (at minimum). They must review those accounts each month to maintain the accuracy and reliability of their fund balance records for both prior year and current year appropriations. Agencies must reconcile no-year, revolving, deposit and trust fund accounts. They also must reconcile clearing and receipt accounts. This detailed reconciliation assures that agency data accumulated in the fund balance account is accurate. It also allows the agency to resolve differences in a timely manner. Federal agencies must research and resolve differences reported on the monthly FMS 6652. They also must resolve all differences between the balances reported on their general ledger FBWT accounts and balances reported on the FMS 6653, 6654 and 6655. When resolving differences, agencies should maintain detailed reconciliation worksheets that, if needed, can be reviewed by the Agency's auditors or Treasury." TFM

<sup>7</sup> TFM, Supplement I TFM 2-5100 (November 1999)

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Section 5145, *Reconciling Budget Clearing Account Differences*, states, "Agencies must reconcile all Budget Clearing Account Balances, including F3875 accounts. They must reclassify these balances to appropriate Treasury account symbols." TFM Section 5125 – *Background*, specifies the procedures to be performed when reconciling FBWT.

*Recommendations:* We recommend that ICE and the Coast Guard:

- a) Prepare monthly reconciliations of FBWT, including resolution of differences;
- b) Perform all procedures required by the TFM including sections 5125, 5145 and Supplement I TFM 2-5100;
- c) Research and clear items held in suspense promptly during the year. Typically, significant balances should not be held in suspense more than 30 days; and
- d) Develop and implement written SOPs to direct and document their FBWT reconciliation processes. The SOPs should be based on Treasury guidance and tailored to the bureaus' operations and financial accounting systems. The procedures should also include timely reviews by supervisory personnel.

### F. Property, Plant, and Equipment

*Background:* Property, plant and equipment (PP&E) represents approximately 17 percent of total DHS assets and more than 60 percent of non-monetary assets. DHS uses a wide variety of capital assets to accomplish its mission, some of which are not typically maintained by non-defense agencies, such as aircraft, and boats and vessels. These assets often have long useful lives, and undergo extensive routine servicing that may increase their value or extend their useful lives. In addition, DHS has several internal use software development projects underway that will result in capitalized software balances in future years. Consequently, application of proper accounting standards to account for PP&E is important to the accuracy of DHS' consolidated financial statements.

*Conditions:* We noted the following internal control weaknesses related to PP&E at DHS bureaus:

1. Coast Guard has not:
  - Implemented appropriate controls and related processes to properly, accurately, and timely record PP&E additions, transfers from other agencies, and disposals in its fixed asset system;
  - Developed and documented methodologies and assumptions to support the value of PP&E that is not supported by original acquisition or other documentation;
  - Implemented asset identification and tagging processes that include sufficient detail, e.g., serial number, to clearly differentiate and accurately track assets in the fixed asset system. In addition, the Coast Guard lacks adequate procedures to update movements and change in status of PP&E in a timely manner, e.g., active or inactive, including those related to the Integrated Deepwater System Program (Deepwater) and vessels that are under repair or being converted;
  - Developed an effective physical inventory process and appropriate support for the valuation method and classification of repairable PP&E;
  - Properly accounted for some improvements and impairments to buildings and structures, and selected useful lives for depreciation purposes, consistent with GAAP; and

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- Established procedures to identify and evaluate lease agreements to determine proper classification and accounting as either capital or operating.
2. ICE has not consistently applied procedures to identify and capitalize software development costs or to reclassify software placed into production from software in development. At September 30, 2004, software costs were not considered material to the consolidated financial statements; however, software development costs are expected to increase in future years.

*Cause/Effect:* Coast Guard has implemented policies and procedures affecting PP&E; however, they are lacking in comprehensiveness and, therefore, do not provide reasonable assurance that all transactions affecting PP&E will be accounted for consistent with GAAP. In addition, the fixed asset module of the Coast Guard's core accounting system is not updated for effective tracking of all PP&E and its capabilities are not fully utilized to clearly differentiate and accurately track assets. The Coast Guard also lacks sufficient policies and procedures and documentation for PP&E. As such, we were unable complete audit procedures over approximately \$2.6 billion of PP&E.

ICE lacks sufficient SOPs that clearly define accounting policies for software development costs. Over the next few years, ICE anticipates spending significant resources developing new software, such as US VISIT. Therefore, the lack of SOPs would increase the risk of financial statement errors due to misapplication of accounting standards for software.

*Criteria:* SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, requires that:

- PP&E be recorded at historical cost with an adjustment recorded for depreciation. In the absence of such information, estimates may be used based on a comparison of similar assets with known values or inflation-adjusted current costs;
- Leases be valued at inception to determine the proper accounting treatment as either a capital or operating lease; and
- PP&E accounts be adjusted for disposals, retirements and other removal of PP&E, including associated depreciation.

SFFAS No. 10, *Accounting for Internal Use Software*, provides requirements for the capitalization and reporting of software development costs. GAO's *Standards* require that internal control and all transactions and other significant events are clearly documented and readily available for examination. The Joint Financial Management Improvement Program (JFMIP) *Property Management Systems Requirements*, states that the Agency's property management system must create a skeletal property record or have another mechanism for capturing information on property in-transit from the providing entity (e.g., vendor, donator, lender, grantor, etc.).

*Recommendations:* We recommend that:

1. Coast Guard:
  - a) Improve controls and related procedures to ensure that additions, transfers, and disposals are recorded accurately and timely in the fixed asset system; that the serial number is entered in the fixed asset system at the time of asset purchase to facilitate identification and tracking; and that the status of assets is accurately maintained in the system;
  - b) Develop and document methodologies and assumptions to support the value of PP&E that is not evidenced by original acquisition or otherwise sufficient documentation;

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- c) Develop and implement internal controls to ensure the quality, sufficiency, and retention of documentation for future PP&E acquisitions and disposals;
  - d) Revise procedures for performing physical inventories of repairable items, to include procedures for resolving differences and reporting results, to ensure that repairable PP&E is accurately and completely classified and recorded. Support the pricing methodology used to value repairable PP&E to ensure that balances, as presented in the financial statements, approximate amortized historical cost;
  - e) Review policies and procedures to account for improvements and impairments to buildings and structures; identify proper useful lives for depreciation purposes that are consistent with GAAP; and correct material departures from GAAP; and
  - f) Establish procedures to ensure that lease agreements are identified and evaluated for proper classification as either capital or operating leases.
2. ICE:
- a) Perform a review of its existing software capitalization policy to determine adequacy for financial reporting purposes. The policy should be sufficiently detailed to allow developers and accounting personnel to identify the various phases of the software development life cycle and the associated accounting treatment, as described in SFFAS No. 10; and
  - b) Develop and implement procedures for developers to track and notify accounting personnel when software has been placed into production so that accounting personnel can properly classify and amortize the software costs.

### G. Operating Materials and Supplies, and Seized Property

*Background:* Operating Materials and Supplies (OM&S) are maintained by the Coast Guard in significant quantities, and consist of tangible personal property to be consumed in normal operations to service marine equipment, aircraft, and other operating equipment. The majority of the Coast Guard's OM&S is physically located at either two Inventory Control Points (ICPs) or in the field. The ICPs use the Naval Electronics Supply Support System (NESSS) and the Aircraft Logistics Management Information System (ALMIS) to track inventory, and field held OM&S is recorded in a different system as subsidiary records supporting the general ledger. The Coast Guard's policy requires regularly scheduled physical counts of OM&S, which are important to the proper valuation of OM&S and its safekeeping. The Secret Service is responsible for the storage, maintenance, and disposal of seized counterfeit currency.

*Conditions:* We noted the following internal control weaknesses related to OM&S and seized counterfeit currency:

1. At Coast Guard:
  - Internal controls over physical counts at field locations were not operating effectively during FY 2004. For example, items were not always properly bar-coded or tagged and on hand quantities frequently did not agree to the perpetual inventory records, and procedures did not sufficiently address whether all inventory on hand was properly recorded in the perpetual records or require discrepancies' timely resolution. Coast Guard plans to implement corrective action over field held OM&S, to include implementation of internal controls, in FY 2005;



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- Policies and procedures for conducting physical inventories of OM&S at the ICPs remained in draft and lacked key elements of an effective physical inventory, e.g., reconciliation of sample population to perpetual records, statistically valid methods of sampling, and proper evaluation and reporting of results. Comprehensive step-by-step physical inventory instructions that clearly addressed each objective of a physical inventory were not communicated in a clear and timely manner. In addition, we noted instances where personnel did not comply with established procedures, and did not properly report findings;
  - Warehouse locations recorded in NESSS were not always current. Some locations listed in NESSS did not exist and one NESSS record could not be located; and
  - The weighted average pricing methodology used to value OM&S was not appropriately supported to demonstrate that all recorded prices approximated historical cost.
2. At the Secret Service, while the counterfeit currency records reflected the results of the physical inventories, they did not accurately reflect the activity for the year.

*Cause/Effect:* The Coast Guard did not have sufficient time between DHS' financial statement audits to fully implement our FY 2003 recommendations related to field held OM&S. Lack of comprehensive and effective policies and controls over the performance of physical counts may result in inventory discrepancies or errors in the physical inventory process that could result in financial statement misstatements. The Coast Guard's support for the calculated weighted average pricing of OM&S included some inaccuracies, and the lack of completeness of the sampled universe might have affected the reliability of the analysis. The Secret Service inventory system did not provide the information necessary to reconcile activity during the year.

*Criteria:* According to GAO's *Standards*, assets at risk of loss or unauthorized use should be periodically counted and compared to control records. Policies and procedures should be in place for this process. The JFMIP *Inventory, Supplies, and Material System Requirements*, states that "the general requirements for control of inventory, supplies and materials consist of the processes of receipt and inspection. An agency's inventory, supplies and materials system must identify the intended location of the item and track its movement from the point of initial receipt to its final destination." SFFAS No. 3, *Accounting for Inventory and Related Property*, states OM&S shall be valued on the basis of historical cost.

*Recommendations:* We recommend that:

1. Coast Guard:
  - a) Update OM&S physical count policies, procedures, and controls, and provide training to personnel responsible for conducting physical inventories;
  - b) Implement effective oversight and monitoring procedures to ensure that physical inventory counts are performed and evaluated in accordance with policies and procedures;
  - c) Perform a review of the inventory information contained in NESSS to identify and correct discrepancies between the perpetual records and actual physical item counts and warehouse locations;
  - d) Consider developing risk-based cycle counting procedures for OM&S; and
  - e) Provide adequate support for the weighted-average price used to value OM&S.
2. Secret Service update its policies and procedures to ensure that the annual activity related to counterfeit currency is properly reflected in the records in a timely manner.

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### H. Undelivered Orders, Accounts and Grants Payable, and Disbursements

*Background:* During FY 2004, ICE began providing accounting services for several significant directorates and programs, including S&T, IAIP, Management, and BTS Headquarters, and continued as accounting service provider for CIS. Most of the prior service providers were legacy agencies outside of DHS. The legacy agencies, for at least some of the components, continued to make disbursements related to prior year obligations and some current year obligations. The legacy agencies charged ICE Treasury accounts, often without reporting the transactions to ICE. As a result, ICE had difficulty maintaining accurate records related to obligations and UDOs. UDOs represent obligations for which delivery of services or goods has not been made. Accurate UDO balances are essential to maintaining budgetary status and estimating ICE's and other components' accounts payable at year-end.

SLGCP uses its legacy agency's grants management system to support SLGCP's grant making activities. Beginning in April 2004, this system allowed grantees to submit their financial status reports electronically via web-based connections. The Transportation Security Administration (TSA) entered into a significant number of grant agreements during FY 2004. Although the management of most of these grants was transferred to SLGCP in the third quarter of FY 2004, the TSA retains administrative responsibilities for these grants until closeout.

*Conditions:* We noted the following internal control weaknesses related to UDOs, accounts and grants payable, and disbursements:

#### 1. At ICE:

- Disbursements made by legacy agencies for S&T and IAIP directorates were not identified and accounted for until the transactions were listed as differences by Treasury in monthly reports used to reconcile FBWT. Consequently, we noted that more than \$200 million of disbursements were not recorded in the general ledger when they occurred;
- ICE did not establish sufficient controls to prevent duplicate payments to vendors related to prior year obligations or to prevent temporary anti-deficient situations in certain Treasury accounts used by both ICE and the legacy agencies to make disbursements;
- ICE did not have sufficient controls to ensure that open obligations were properly liquidated when corresponding accounts payable were recorded;
- Policies related to verification and validation of obligations performed by field personnel did not clearly define responsibilities and have not been issued to all field locations;
- We noted an error rate of approximately 10 percent when examining approvals for disbursements for S&T and IAIP. Specifically, evidence of review and approval of invoices and receipt of goods and services could not be located; and
- The method used during FY 2004 to estimate accounts payable for S&T, IAIP and the other components that ICE performs accounting services for, was not based on historical disbursements or other information unique to those particular programs. In addition, subsidiary records used to compute accounts payable, i.e. Open Document File (used to track UDOs), did not agree to the general ledger during the year, however were reconciled at year end.

## Independent Auditors' Report Appendix I – Material Weaknesses in Internal Control

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### 2. At Coast Guard:

- Coast Guard did not have adequate controls to periodically review and validate UDOs or to ensure that recorded obligations were valid, and obligations incurred were recorded timely;
- Coast Guard did not record contract awards related to Deepwater in the general ledger in a timely manner, resulting in an understatement of obligations approximating \$105 million at the time of our testwork. In addition we noted a lack of segregation of duties associated with the creation and approval of purchase requisitions, certification of funds availability, and the recording of the obligation;
- Facts and Figures Quick (FAFQ) programming logic was not properly configured to extract data into a report that accurately reflected the general ledger and could be used to evaluate and analyze the transaction history of UDOs;
- The transaction codes in the Coast Guard's general ledger to record advance payments and related UDOs was not in conformance with the TFM and could result in a misstatement to the financial statements;
- Policies and procedures related to the automated requisition and procurement process were not consistently followed in all regions. Specifically, the Financial and Procurement Desktop (FPD) system could be overridden to allow non-conforming numbering for purchase requisitions, and as a result there was a risk that commitments would not be properly tracked and/or matched with obligations in the accounting records. Further, a system problem existed that affected the synchronization of transactions recorded in FPD and the core accounting system, resulting in an overstatement of UDOs of \$5.6 million that had to be corrected;
- The Procurement Management Effectiveness Assessment (MEA), which is an on-site assessment of procurement activity for compliance with Federal statutes and regulations, was not fully performed as planned in FY 2004. The MEA is an important risk assessment and monitoring control function that, when properly performed, assists in assessing compliance with applicable laws and regulations; and
- The verification process used to validate the accuracy of accounts payable included erroneous data. Consequently inaccurate statistics would have been used in estimating accounts payable at year-end.

### 3. SLGCP did not perform sufficient monitoring over the legacy agency's activities performed on its behalf. Certain control weaknesses were identified in the legacy agency's financial systems. For example, the web-based grantee reporting system was not certified and accredited. Consequently, SLGCP management did not have assurance that the system controls associated with its grant accruals and the related financial statement line items were properly designed and effectively operating.

### 4. At TSA several grants tested did not have the following on file: performance reports; the application package SF-424, *Application for Federal Assistance*, and SF-270, *Request for Advance or Reimbursement*, signed by the grant officer and/or the program officer. We also noted that the TSA did not have policies or procedures in place to properly monitor compliance with the *Single Audit Act Amendments of 1996* (OMB's Circular A-133) and laws and regulations supporting OMB A-50, *Audit Follow-up*, as revised.

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*Cause/Effect:* Some of the conditions at ICE resulted from difficulties with the transfer of S&T, IAIP, and DHS management accounting operations from legacy agencies to ICE in FY 2004. (See Comment B - *Financial Management and Oversight at Immigration and Customs Enforcement*, for further details.) In addition, procedures for verification and validation of obligations were not clearly written and understood by field personnel. These procedural weaknesses resulted in the misclassification of open obligations and misstatements of undelivered and delivered orders.

Coast Guard's greater relative size within DHS, compared to its legacy department, has meant that it has received proportionally greater scrutiny. Because SLGCP management did not perform sufficient monitoring of its financial reporting processes, SLGCP could not take timely action to ensure that control weaknesses identified in the legacy agency's systems used to process SLGCP's transactions would not materially impact its financial statement balances. These weaknesses could result in a misstatement of grant payables, expenses and/or UDOs. At TSA, if grants are not appropriately monitored, it is possible that funding will not be used for its intended purpose.

*Criteria:* GAO's *Standards* hold that transactions should be properly authorized, documented, and recorded accurately and timely. OMB Circular A-123, *Management Accountability and Control*, states that "transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports." SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, states, "When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated."

*Recommendations:* We recommend that:

1. ICE:
  - a) Improve procedures to prevent duplicate payments to vendors from accounts used by both ICE and legacy agencies, including the proper liquidation of obligations when accounts payable are recorded. Also, establish written procedures that require legacy agencies to timely submit all information affecting ICE's accounting for component disbursements and work with legacy agencies to implement them. If possible, consider transferring all accounting services for prior year obligations from legacy agencies into ICE;
  - b) Strengthen controls over the timely liquidation of obligations when accounts payable are recorded;
  - c) Adhere to disbursing policies and procedures, which require disbursements to be made only after proper approval of the invoice has been obtained and evidence of the receipt of goods and services has been received;
  - d) Expand the policies and procedures documentation related to obligation verification and validation to more clearly communicate the process to field personnel. The policies should be updated to require the completion of a receiving report for all goods and services before invoices are approved for payment. If necessary, additional training should occur to enhance understanding of the procedures; and
  - e) Use historical data that is specific to the operations of S&T, IAIP, Management, BTS Headquarters, and CIS when estimating accounts payable for financial statement purposes. In addition, UDO subsidiary records should be routinely reconciled to the general ledger.

## Independent Auditors' Report Appendix I – Material Weaknesses in Internal Control

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2. Coast Guard:
  - a) Improve controls related to processing obligation transactions, to include periodic review and validation of UDOs. Emphasize to all funds managers the need to perform effective monthly reviews of open obligations. Develop effective monitoring controls for reviewing and approving obligation transactions prior to processing;
  - b) Improve segregation of duties at Deepwater related to the creation and approval of purchase requisitions, certification of funds availability, and the recording of the obligations;
  - c) Evaluate programming logic and transactions codes used to record advances for which an obligation was not previously recorded to ensure the obligation and UDO is properly recorded;
  - d) Assess programming logic of Facts & Figures Quick and implement appropriate corrective action;
  - e) Update the program logic of FPD to improve document numbering of purchase requisitions. The system design of FPD and the core accounting system should be evaluated to ensure that obligation transactions are correctly processed;
  - f) Revise Commandant Instruction 4200.30B, *Program Management Review Program*, in order to implement effective oversight and monitoring procedures of the contract acquisition process, including the frequency of MEA's at major procurement regions; and
  - g) Improve controls over data validation used in the accounts payable estimation process.
3. SLGCP should designate an official to perform a financial oversight role and take responsibility for monitoring its financial processing and reporting activities performed by its legacy agency. This official should obtain appropriate assurances from its legacy agency, e.g., Statement on Auditing Standards No. 70, *Service Organizations*, review report, to be able to assess that general and application controls relevant to SLGCP's financial activities are properly designed and operating effectively.
4. TSA:
  - a) Implement policies and procedures to ensure that performance reports for grants and agreements are received in accordance with grant award documents and OMB's requirements;
  - b) Implement policies and procedures to ensure that grantees are being monitored for compliance with OMB's Circular A-133 and A-50; and
  - c) Implement document retention policies and procedures that include printing out approvals and placing them in award files, and printing out application packages when they are received.

### I. Budgetary Accounting

*Background:* Budgetary accounts are a category of general ledger accounts where transactions related to appropriations and other authorities to obligate and spend agency resources are recorded. During FY 2004, ICE began providing accounting services for several significant directorates and programs, including S&T, IAIP, Management, and BTS Headquarters and continued as accounting service provider for CIS. Most of the prior service providers were legacy agencies outside of DHS. The Coast Guard has a complex budget that includes budget authority from a variety of sources: annual, multi-year, and no-year appropriations; and several revolving, special, and trust funds.

## Independent Auditors' Report Appendix I – Material Weaknesses in Internal Control

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*Conditions:* We noted the following internal control weaknesses related to budgetary accounting:

1. At ICE:

- Weaknesses existed in controls that might have allowed ICE to become anti-deficient or prevented management from knowing if they were anti-deficient. As stated in our Independent Auditors' Report, we were unable to complete our audit of the financial statements as of and for the year ended September 30, 2004 and accordingly, we were unable to complete our procedures related to ICE's compliance with the *Anti-Deficiency Act*;
- The transfer of accounting records and responsibilities from prior accounting services providers was not coordinated properly. FY 2003 ending balances for budgetary accounts often did not equal FY 2004 beginning balances, with the differences unexplained. The legacy agencies continued to approve payments and make disbursements for prior year obligations, but ICE was unable to get timely information on these activities, if any at all, to update the relevant accounting records;
- Obligations were not recorded in a timely manner. For example, approximately \$200 million in FY 2004 obligations for S&T were not recorded in the general ledger because of insufficient controls to prevent S&T from using its prior legacy service provider and lack of coordination. Other obligations related to S&T, IAIP, Management, and BTS Headquarters were not recorded timely in the general ledger;
- Disbursements and resulting adjustments to obligation balances related to operations transferred to CBP, i.e., Border Patrol, were not reported timely to CBP, causing misstatements in the financial statements of both bureaus;
- Contracting officer approvals were not clearly documented on obligating documents, and in one instance a contracting officer approved a purchase for an amount in excess of the officer's authority; and
- Weaknesses existed in controls over the preparation, submission and reconciliation to the general ledger of the SF 132, *Apportionment and Reapportionment Schedule*, and the SF 133, *Report on Budget Execution*. Information reported on the SF-133 did not agree with the accounting records and was not reconciled timely resulting in inaccuracies in the June 2004 financial statements.

2. At Coast Guard:

- The electronic validation and/or edit checks within the budget module of the general ledger accounting system, which could flag and prevent the recording of commitments (a reservation of funds for future obligation) or obligations in excess of appropriations, apportionments, or allotments, was not fully utilized;
- Weaknesses existed in controls over the recording of budgetary authority, commitments, obligations and related disbursements and rescissions. For example, budget authority recorded in the Coast Guard's main general ledger system was understated by \$1.2 billion as of March 31, 2004, and FY 2004 budget authority for acquisition, construction and improvements appropriations was overstated by \$26 million. Coast Guard did not properly record \$60 million in budget authority that was transferred from the Department of the Navy, resulting in inaccuracies in the June 2004 financial statements;

## Independent Auditors' Report Appendix I – Material Weaknesses in Internal Control

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- Weaknesses existed in controls over the preparation, submission and document retention of the SF 132 and SF 133 reports. For example, some SF-132s combined multiple appropriations without advanced written OMB approvals;
  - Approximately five percent of contracting officers listed with warrant authority had expired warrants at the time of our testwork. There were no automated system controls to preclude the processing of procurement transactions if the contracting officer's warrant authority had expired. The Coast Guard did not maintain an accurate, up-to-date listing of currently warranted contracting officers; and
  - Commitments were not routinely monitored for aging or released timely so that funds could be committed and obligated elsewhere. At the time of our testwork, more than one-third of recorded unobligated commitments (approximately 1,200) were over 90 days old, and a substantial portion of those were recorded prior to FY 2004.
3. At EPR, the statement of budgetary resources was misstated through August 31, 2004 because of its method of accounting for investments. EPR recorded an audit adjustment to correct the misstatement as of September 30, 2004.

*Cause/Effect:* Several of the conditions at ICE resulted from difficulties with the transfer of the accounting operations of S&T, IAIP and other components from legacy agencies to ICE in FY 2004. ICE and legacy agency management did not coordinate the transition process to ensure that all transactions were properly recorded in the general ledgers of S&T, IAIP directorates and other components during the transfer of accounts to ICE. These conditions can also be attributed directly to weaknesses described in Comment B - *Financial Management and Oversight at Immigration and Customs Enforcement*.

Coast Guard chose not to use the system configuration controls to flag commitments and obligations that might be in excess of appropriated amounts. Other system and processing limitations hampered the timely recording of budget authority. Weaknesses in policies and procedures also contributed to the conditions.

Weak controls in budgetary accounting and associated contracting practices increase the risk that DHS and its bureaus could violate the *Anti-Deficiency Act* and overspend their budget authority. The financial statements are also at greater risk of misstatement. The untimely release of commitments may prevent funds from being used timely for other purposes.

*Criteria:* The *Anti-Deficiency Act* prohibits agencies from obligating or disbursing more than their appropriations and apportionments, has strict requirements for reporting violations, and includes penalties for violations. GAO *Standards* hold that transactions should be properly authorized, documented, and recorded accurately and timely. OMB Circular A-11 *Preparation, Submission, and Execution of the Budget*, requires Federal agencies to submit their apportionment requests on an SF-132 for each appropriation unless permission is granted otherwise. According to JFMIP's *Core Financial System Requirements*, an agency's core financial management system must ensure that an agency does not obligate or disburse funds in excess of those appropriated and/or authorized, and specific system edits and user notifications related to funds control must be in place. The Federal Acquisition Regulation (FAR) Section 1.16 addresses the authorities and responsibilities granted contracting officers. Treasury's USSGL guidance specifies the accounting entries related to investment transactions.

## Independent Auditors' Report Appendix I – Material Weaknesses in Internal Control

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*Recommendations:* We recommend that:

1. ICE:
  - a) Perform a review in sufficient detail to determine if ICE, or any component where ICE performs accounting services, has violated the *Anti-Deficiency Act* during FY 2004, and report any violations in accordance with U.S.C. Title 31;
  - b) Record the obligations entered into by the legacy agency on S&T's behalf into S&T's general ledger at the transaction level; and implement procedures to ensure that S&T obligations entered into by the legacy agency are recorded timely;
  - c) Improve policies and procedures to ensure that contracting officers do not approve purchases that exceed their authority and to require their signature on the original obligating documentation; and
  - d) Improve its policies and procedures related to preparation of the SF 132 and SF 133 and periodic, e.g. quarterly, reconciliation of these reports to the general ledger. Reconciliations should be performed at the Treasury Appropriation Fund Symbol (TAFS) level, with differences investigated and properly corrected.
2. Coast Guard:
  - a) Activate the electronic edit checks in its budget module and general ledger systems to prevent incurring commitments and obligations in excess of appropriations and apportionments and consider establishing automated controls to prevent processing of procurement transactions by contracting officers who do not have active warrant authority;
  - b) Develop procedures and controls related to the review and processing of Treasury warrants prior to recording them into the main general ledger system. Review the appropriation data received from Treasury; and then make appropriate revisions and changes.
  - c) Improve controls related to preparation of the SF 132 and SF 133 and periodic, e.g., quarterly, reconciliation of these reports to the general ledger. Reconciliations should be performed at the TAFS level, with differences investigated and properly corrected;
  - d) Obtain proper advance written approval from OMB to prepare the SF-132 with combined appropriations. If approved, the Coast Guard should prepare a schedule in the notes to the SF-132 indicating the specific amounts by appropriation, and improve its document retention;
  - e) Revise controls and related policies and procedures to:
    - Review and update the warrant authority of active contracting officers more frequently; implement system controls to flag procurement transactions when the officer's warrant is expired; and improve documentation for each officer's warrant history;
    - Periodically review commitments, and determine the feasibility of modifying the budget module to transmit all commitments, regardless of dollar amount, to the general ledger system; and
  - f) Develop and provide specific training related to any internal controls and related policy and procedure changes.
3. EPR should correct its method of accounting for investments during the year, related to its National Flood Insurance Program, to follow the recommended method presented in the Treasury's USSGL guidance.



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### J. Intragovernmental and Intradepartmental Balances

*Background:* DHS conducts business with other Federal agencies resulting in intragovernmental receivables, payables, and the reporting of revenues and expenses from intragovernmental transactions. Federal accounting and reporting regulations require Federal agencies to routinely identify and reconcile intragovernmental balances and transactions with trading partners. These procedures help ensure that intragovernmental balances properly eliminate in the government-wide consolidated financial statements. DHS bureaus also conduct business with each other, resulting in the same type of transactions and balances that must be netted against each other to produce accurate consolidated financial statements for DHS.

*Conditions:* Regarding intragovernmental balances, we noted that ICE, (including S&T, IAIP, BTS Headquarters, Management and CIS – DHS components where ICE functions as accounting services provider), EPR, and Coast Guard have not developed and adopted effective SOPs or established systems to completely track, confirm, and reconcile intra-DHS balances and/or transactions with trading partners, in a timely manner. In addition, DHS did not reconcile its fourth quarter intragovernmental balances with other federal entities. Consequently, the DHS “Material Difference/Status of Disposition Certification Report,” submitted to Treasury for September 30, 2004, showed material differences “unknown or unreconciled” or “accounting/reporting errors” in excess of \$370 million and \$715 million, respectively. These conditions also impacted DHS’ ability to accurately report transactions with government trading partners in the consolidated financial statements and in the RSI section of the financial statements, as required.

Regarding intradepartmental balances, we noted that throughout the year DHS was unable to produce accurate consolidated financial statements due, in part, to significant out-of-balance conditions between DHS bureaus. Intra-DHS transactions between ICE, CBP, CIS and other DHS components did not eliminate correctly at the consolidated level during the year. Further, DHS was unable to completely reconcile out-of-balance intradepartmental transactions at year-end, resulting in the need for significant “top-side” adjustments, based primarily on estimates and analytical comparisons, to close the general ledger and prepare consolidated financial statements. Many of these topside adjustments cannot be supported with sufficient documentation that evidences reviews for completeness and accuracy.

*Cause/Effect:* Financial system limitations at ICE (and for DHS components it services), and the Coast Guard prevented these bureaus from tracking activity with government trading partners and thus, manual processes have been established. Accounting data for DHS components that ICE services, e.g., S&T and IAIP, and provided to ICE did not include detailed supporting schedules of trading partner activity that would have facilitated the reconciliation process. Coast Guard has not fully utilized its accounting system functionality to identify and track intragovernmental balances. EPR did not reconcile intradepartmental accounts timely during the year due to partner code configuration differences between EPR’s and DHS’s IT systems, that were by corrected by the end of the year. A lack of resources in the OCFO prevented the accountant responsible for intragovernmental reconciliations from researching and reconciling intragovernmental differences in a timely manner during the year and at year-end. Reconciling trading partner activity and balances at least quarterly is necessary to identify material out-of-balance conditions between federal entities and to support an accurate consolidation of DHS with the government-wide financial statements. The significant restructuring of DHS that created ICE, CBP, and CIS contributed significantly to the out-of-balance conditions between DHS bureaus.

*Criteria:* The *Treasury Federal Intragovernmental Transactions Accounting Policies Guide*, dated October 23, 2002, requires quarterly reconciliation of intragovernmental asset, liability and revenue amounts with trading partners. Further, the TFM, Section 4060, *Intragovernmental Activity/Balances*,

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requires reporting agencies to reconcile and confirm intragovernmental activity and balances quarterly for specific reciprocal groupings. OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, requires the presentation of transactions with trading partners to be presented in RSI. It also requires agency financial statements to be presented on a consolidated basis, including the elimination of significant intradepartmental transactions and balances for reporting purposes.

*Recommendation:* We recommend that all DHS bureaus and programs, in conjunction with the DHS OCFO, develop and implement procedures to positively confirm and reconcile, at least on a quarterly basis, all intragovernmental activity and balances with their intragovernmental trading partners including other DHS component entities, as prescribed by Treasury guidance. In addition, transactions with trading partners should be completely and accurately presented in the RSI section of the Department's PAR. These procedures also should ensure that all intradepartmental activity and balances are identified and properly eliminated for DHS' consolidated financial statements.

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**Appendix II – Other Reportable Conditions in Internal Control**

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**K. Deferred Revenue on Immigration and Naturalization Applications**

*Background:* CIS accepts millions of applications annually and typically collects more than \$1 billion in fees from applicants seeking immigration and naturalization services. Applications are received and processed at four service centers, the National Benefits Center, over 30 district offices, and numerous satellite offices. Upon receipt of an application, CIS personnel input the data into a variety of information systems. Numerous ad hoc systems are used to perform monitoring and file tracking functions during the acceptance and adjudication process. To determine the amount of revenue to be deferred at the end of the reporting period, CIS relies on automated application tracking systems, in particular the CLAIMS 3 LAN<sup>8</sup> and CLAIMS 4<sup>9</sup>. A query of these systems is performed to determine the total number of pending applications and the associated fees received for each of these applications. The accuracy of the deferred revenue calculation depends on the reliability of the application status recorded in the systems. Federal accounting standards require that application revenue must be deferred until adjudication is complete, and consequently the status (e.g., completion) of applications has a direct effect on DHS' consolidated financial statements. There are a number of information systems initiatives underway to improve the efficiency of and the quality of management information from the application and adjudication process.

*Conditions:* We noted the following internal control weaknesses related to the acceptance and adjudication of immigration and naturalization applications at CIS:

- Not all applications were maintained in the primary databases – CLAIMS 3 LAN and CLAIMS 4. Numerous ad hoc systems, including some manual systems, were used to perform monitoring and file tracking functions during the acceptance and adjudication process that were not integrated. Procedures have not been implemented to compare the actual pending applications tracked in the ad-hoc systems with the number being estimated for the deferred revenue, leading to processing and quality assurance inefficiencies;
- CIS lacked SOPs for identifying the accuracy and reliability of CLAIMS 4 data and the query of CLAIMS 4, which provides the number of pending naturalization applications and the associated fee that is used in the deferred revenue calculation;
- Quality assurance procedures, adopted to verify the accuracy of application status data in CLAIMS 3, were not consistently performed by the service centers and the National Benefits Center. In addition, the information provided to CIS headquarters as a result of the quality assurance procedures was not in sufficient detail to permit analysis of results, support conclusions and develop corrective actions. The lack of such quality assurance procedures in previous years led to bureau-wide end of the year inventories that were disruptive to CIS operations and delayed the completion of year-end financial reporting; and
- Fees collected with immigration applications were not always deposited in accordance with Treasury guidelines.

*Cause/Effect:* Policy and initiatives to replace ad hoc systems used to track the status of applications and associated fees have been slow in development. The lack of integrated systems and use of ad hoc systems create significant inefficiencies and increase the risk of errors and reporting inconsistencies. The lack of SOPs increases the risk of inconsistency by creating a lack of standardization, and of errors in the data. Due to the concerns over data quality in both the local and national feeder systems, and the reporting

<sup>8</sup> CLAIMS 3 LAN is the acronym for Computer Linked Application Information Management Systems, Version 3, Local Area Network.

<sup>9</sup> CLAIMS 4 is the acronym for Computer Linked Application Information Management Systems, Version 4.

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process, CIS had to perform an extensive service-wide inventory of pending (SWIP) applications in previous years to accurately state deferred revenue in its financial statements. A SWIP is labor-intensive and time-consuming, but necessary in the absence of adequate quality assurance procedures to verify perpetual application inventory systems and determine adjustments to deferred revenue.

Overall, resources are insufficient to address the volume of applications received, thus preventing the applications from being input into the respective system within one day of receipt. As a result, fees accompanying the applications are also often not deposited within the Treasury required time frame. The contract for data entry and deposit services at the service centers have conflicting performance clauses that provides inconsistent guidance on timing of fee deposits.

*Criteria:* OMB Circular A-127 requires that financial management systems provide effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. Because CIS' various application and adjudication systems support preparation of the financial statements, they are considered financial systems. OMB Circular A-123 states that "transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports." SFFAS No. 1, states, "Federal entities may receive advances and prepayments from other entities for goods to be delivered or services to be performed. Before revenues are earned, the current portion of the advances and prepayments should be recorded as other current liabilities. After the revenue is earned (goods or services are delivered, or performance progress is made), the entity should record the appropriate amount as a revenue or financing source and should reduce the liability accordingly."

Section 8030.20 of the TFM stipulates that "agencies will deposit receipts totaling \$5,000 or more on the same day received prior to depository cutoff time" and "monies received too late in the day to meet the deposit cutoff time must be deposited the following business day. Agencies must have adequate internal controls in place to ensure the security of all undeposited funds."

*Recommendations:* We recommend that CIS:

- a) Continue the information systems initiatives underway to improve the efficiency and quality of management information from the application and adjudication process and gradually reduce the number of ad hoc systems in use;
- b) Develop and implement policies and procedures to verify the accuracy and reliability of CLAIMS 4 and CLAIMS 3 LAN and the query of CLIAMS 4 and CLAIMS 3 LAN for reporting deferred revenue. CIS personnel should be trained on proper implementation of the SOPs;
- c) Require all locations to perform quality assurance counts of pending applications with a frequency (e.g., rotating quarters) that is sufficient to provide reasonable assurance of the completeness and accuracy of data used to compute deferred revenue. The results of the quality assurance counts (e.g., the error rate) should be recorded and used to develop a quality assurance function. Policies governing cycle counts should be developed and followed; and
- d) Revise policies and procedures, including contractor agreements, to ensure that fee receipts are deposited in accordance with Treasury guidelines.

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### L. Environmental Liabilities

*Background:* The Coast Guard's environmental liabilities consist of two main types: shore facilities and vessels. Shore facilities include any facilities or property other than ships and aircraft (e.g., buildings, fuel tanks, lighthouses, small arms firing ranges, batteries from aids to navigation, etc.).

The Plum Island Animal Disease Center (PIADC) was transferred to DHS from the Department of Agriculture and is dedicated to the study of animal diseases to better protect the food supply. Previously the PIADC was a U.S. Army installation. The type of research conducted at PIADC and its past use as a military facility are indicators that the land and buildings may require substantial environmental clean-up to eliminate environmental contaminants. PIADC is now part of DHS' S&T Directorate.

*Conditions:* We noted the following internal control weaknesses related to environmental liabilities:

1. At Coast Guard:

- Consistent policies or procedures have not been developed for the identification, evaluation, and estimation of potential environmental remediation of Coast Guard sites, thereby resulting in different approaches by shore facility commands and ultimately varying liability estimates;
- Personnel do not always follow stated policies and procedures, such as current year indexing and usage of contingency factors for possible unknown conditions;
- Environmental liability estimates associated with lighthouses/light stations did not include future Phase II (soil testing) assessment or remediation costs;
- The estimates for both shore facilities and vessels were misstated due to ineffective procedures. In addition, we noted that the Coast Guard did not properly index the liability costs to current year dollars, nor did they properly include contingency factors for unknown conditions resulting in a potential understatement of the liability in the financial statements;
- Consistent policies and procedures have not been developed to estimate the cost of remediation of specific projects, such as lighthouses and small arms firing ranges; and
- There is no management review of the environmental compliance and remediation estimates reported at year-end to ensure accuracy and consistency in recording the liability in the financial statements.

2. At S&T, policies and procedures have not been developed to determine if an environmental liability exists at the PIADC and if so to accurately estimate and record an environmental liability for the cost of cleanup.

*Cause/Effect:* Coast Guard has not developed consistent written agency-wide policies to define the technical approach, cost estimation methodology, and overall management of its environmental remediation projects, resulting in inconsistency in its estimates and possible misstatement of the liability in their financial statements.

*Criteria:* SFFAS No. 6, paragraph 85, defines environmental cleanup costs as those costs for removing, containing, and/or disposing of (1) hazardous waste from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E. Paragraph 88 states that these cleanup costs meet the definition of liability provided in SFFAS No. 5, *Accounting for Liabilities of the Federal Government*. In addition, SFFAS No. 6, paragraph 96, states that

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remediation estimates shall be revised periodically to account for material changes due to inflation or deflation and changes in regulations, plans and/or technology. New remediation cost estimates should be provided if there is evidence that material changes have occurred; otherwise estimates may be revised through indexing.

Federal Accounting Standards Advisory Board's Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, states that an agency is required to recognize a liability for environmental cleanup costs as a result of past transactions or events when a future outflow or other sacrifice of resources is probable and reasonably estimable. Probable is related to whether a future outflow will be required. Reasonably estimable relates to the ability to reliably quantify in monetary terms the outflow of resources that will be required.

The GAO *Standards* state that management is responsible for developing and documenting detailed policies, procedures, and practices that fit their agency's operations. As part of their monitoring of internal control, management must continue to maintain these policies and procedures and assess the quality of performance over time.

*Recommendations:* We recommend that

1. Coast Guard:
  - a) Implement policies and procedures to ensure the proper calculation and review of cost estimates for consistency and accuracy in financial reporting; and
  - b) Develop and implement policies and procedures to apply indexing and contingencies to environmental estimates on a consistent basis, and to require their documentation.
2. S&T evaluate the PIADC facility using a qualified environmental specialist to determine if an environmental liability exists, and if so to accurately estimate and record an environmental liability for the cost of cleanup.

### M. Custodial Activity Performed by Customs and Border Protection

*Background:* CBP, as a component of DHS, has continued to perform an important revenue collection function for the U.S. Treasury. CBP collects approximately \$24 billion in import duties, taxes and fees annually on merchandise arriving in the United States from foreign countries. Receipts of import duties and related refunds are presented in the statement of custodial activity in the DHS consolidated financial statements. CBP is the only DHS bureau with significant custodial responsibilities.

Generally, an importer is required to pay CBP the appropriate duties, taxes, and fees at the port of arrival (port of origin). An exception is made, however, for goods transported "in-bond" from the port of origin to another port (port of destination) within the United States. Merchandise traveling in-bond is not subject to duties, taxes, and fees until it reaches the port of destination where it is ultimately released into the commerce or destroyed. The bonded carrier is ultimately obligated by their official bond to ensure the integrity of the merchandise until disposition and the payment of appropriate duty, if any, is due. It is CBP's responsibility to control the movement and disposition of in-bond shipments with effective policies and regulations that result in either collection of applicable duties, taxes, and fees at the port of destination or the export of the merchandise. CBP has developed a compliance measurement program, called TINMAN, to select, review and determine overall compliance of in-bond movements.

Drawback is a remittance in whole or in part, of duties, taxes, or fees previously paid by an importer. Drawback typically occurs when the imported goods on which duties, taxes, or fees have been previously

## Independent Auditors' Report Appendix II – Other Reportable Conditions in Internal Control

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paid are subsequently exported from the United States or destroyed prior to entering the commerce of the United States. Depending on the type of claim, the claimant may have up to eight years from the date of importation to file for drawback.

*Conditions:* We noted the following internal control weaknesses related to in-bond movements of imported goods.

CBP:

- Did not have a reliable process of monitoring the movement of in-bond shipments;
- Lacked adequate written SOPs for the use of TINMAN; and
- Lacked consistent performance of a compliance measurement program to periodically assess the risk and compute an estimate of underpayment of duties, taxes and fees.

We also noted the following internal control weaknesses at CBP related to the drawback of duties, taxes, and fees paid by importers:

- The revenue accounting system, Automated Commercial System (ACS), lacked controls to detect and prevent excessive drawback claims and payments, necessitating inefficient manual processes to compensate. ACS did not have the capability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries or export documentation upon which the drawback claim was based. For example, ACS did not contain electronic edit checks that would flag duplicate claims for export of the same merchandise;
- Drawback review policies did not require drawback specialists to review all related drawback claims against the underlying consumption entries to determine whether, in the aggregate, an excessive amount was claimed; and
- At final liquidation of a drawback claim, although ACS flags a drawback in excess of the gross amount paid on an import, ACS does not have a control to prevent a claim from being processed for an erroneous amount.

*Cause/Effect:* Much of the in-bond and drawback process was manual, placing an added burden on limited resources.

For in-bond, we noted that in most cases in-bond imports were opened correctly in the system at the arrival ports; however, the ports did not have the resources to close out all in-bond movements that were received at the destination port. Policies and procedures have not been developed and/or implemented to reliably and accurately track and close in-bond movements in a timely manner. System limitations reduced the effectiveness of physical inspections and the reliability of in-bond reports and prevented electronic comparisons of entry and export information. Without an adequate process to track and close in-bond movements and an effective compliance measurement program, CPB lacks assurance that: (i) declared quantity and type of cargo moving in-bond is accurate and complete, (ii) cargo actually reaches its scheduled destination, and (iii) calculated and collected revenue for cargo moving in-bond is accurate and complete in relation to the entry summary filing.

For drawback, CBP did use a sampling approach to compare, verify, and match consumption entry and export documentation to drawback claims submitted by importers. However, procedural limitations decreased the effectiveness of this approach. The inherent risk of fraudulent claims or claims made in error is high for the drawback program, and therefore, good internal controls are essential to manage and reduce the risk of erroneous payments.

II.5

(Continued)

## Independent Auditors' Report Appendix II – Other Reportable Conditions in Internal Control

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*Criteria:* Under FMFIA, management must implement cost-effective controls to safeguard assets and ensure reliable financial reporting. Further, while DHS was not subject to FFMA, OMB's *Revised Implementation Guidance*, states that financial systems should "routinely provide reliable financial information consistently, accurately, and reported uniformly" to support management of current operations. In addition, CBP policies require that all in-bond transactions should be closed out timely to ensure that goods are not diverted into commerce without filing and paying the proper amount of duties, taxes, and fees. JFMIP publications and OMB Circular No. A-127 outlines the requirements for Federal systems. JFMIP's *Core Financial System Requirements*, states that the core financial system must maintain detailed information by account sufficient to provide audit trails and to support billing and research activities. Circular No. A-127 requires that the design of financial systems should eliminate unnecessary duplication of a transaction entry. Wherever appropriate, data needed by the systems to support financial functions should be entered only once and other parts of the system should be updated through electronic means consistent with the timing requirements of normal business/transaction cycles.

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

*Recommendations:* We recommend that CBP:

- a) Design in-bond monitoring and reconciliation controls into the new systems that will replace ACS in the future;
- b) Develop and implement SOPs that define procedures and responsibilities for the TINMAN program;
- c) Reinstate the compliance measurement audits over the in-bond program, including a methodology for measurement of results from inspections performed based on TINMAN selection;
- d) Implement effective internal controls over drawback claims as part of any new systems initiatives, including the ability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries and exportation documentation for which the drawback claim is based, and identify duplicate or excessive drawback claims;
- e) Adopt a review methodology to allow a statistical projection from drawback testing; and
- f) Revise current policies and procedures to require drawback specialists to review all prior related drawback claims against a designated consumption entry to determine whether, in the aggregate, an excessive amount was claimed against the consumption entries.



## Independent Auditors' Report Appendix III – Compliance and Other Matters

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(Findings A – J and K – M are presented in Appendices I and II, respectively)

### **N. Federal Managers' Financial Integrity Act of 1982**

OMB Circular A-123 requires agencies and Federal managers to (i) develop and implement management controls; (ii) assess the adequacy of management controls; (iii) identify needed improvements; (iv) take corresponding corrective action; and (v) report annually on management controls (commonly known as management's FMFIA report). We noted that DHS management's FMFIA report did not contain corrective action plans for all material weaknesses identified in its PAR. DHS and its components – CIS, Coast Guard, EPR, ICE, TSA and DHS – have not established effective systems, processes, policies and procedures to evaluate and report on internal accounting and administrative controls, and conformance of accounting systems to properly and accurately report on compliance with Sections FMFIA Sections 2 and 4.

*Recommendations:* We recommend that DHS improve its process to ensure compliance with FMFIA in FY 2005.

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

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

*Recommendations:* We recommend that DHS follow the recommendations provided in Appendix I, Comment D.

### **P. Single Audit Act Amendments of 1996, Laws and Regulations Supporting OMB Circular No. A-50, Audit Follow-up, as revised, and the Robert T. Stafford Disaster Relief and Emergency Assistance Act as amended October 2000 (Stafford Act)**

As grant-making agencies, EPR, SLGCP and TSA are required to comply with certain provisions of OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Subpart D – Federal Agencies and Pass-Through Entities*, and OMB Circular No. A-50, *Audit Follow-up*. The circulars require agencies awarding grants to ensure they receive grantee reports timely, to follow-up on grantee single audit findings, and to communicate program identification information to the grantees. In addition, under the Stafford Act, EPR must perform cost-share analysis of applicable grants to ensure that the grantees are funding their appropriate share of program costs.

Although certain procedures have been implemented to monitor grantees and their audit findings, we noted that EPR, SLGCP and TSA did not have procedures in place to fully comply with provisions in OMB Circulars No. A-133 and A-50 that require them to timely obtain and review grantee single audit reports and follow up on questioned costs and other matters identified in these reports. Since single audits typically are performed by other entities outside of DHS, procedures related to these reports are not

## Independent Auditors' Report Appendix III – Compliance and Other Matters

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always entirely within EPR's, SLGCP's and TSA's control. We noted that EPR was not in full compliance with the *Stafford Act* because certain cost-share analysis and follow-up were not timely performed or provided to State grantees in one regional office. In addition, EPR had not always provided notification of the *Catalog of Federal Domestic Assistance* (CFDA) number to grantees.

*Recommendations:* We recommend that:

1. DHS management develop and implement department-wide policies and procedures to ensure compliance with OMB Circulars A-133 and A-50, including the identification of which bureau must comply. Until policy guidance is received from DHS management, EPR and SLGCP should perform the following in FY 2005:
  - a) Develop and implement a tracking system to identify each grantee for which an OMB Circular A-133 single audit is required and the date the audit report is due;
  - b) Use the tracking system to ensure audit reports are received timely, or to follow-up when reports are overdue; and
  - c) Perform reviews of grantee audit reports, issue related management decisions, and ensure that the grantees take appropriate corrective action, on a timely basis.
2. In addition, EPR should perform the following in FY 2005:
  - a) Ensure that grants management specialists review and document the results of their cost-share analyses for reasonableness and accuracy, and perform timely follow-up if their analyses indicate potential issues with the cost-share amounts; and
  - b) Ensure that all grant identifying information, including CFDA numbers, is communicated to the grantees timely and that evidence of such communication be maintained in the applicable grant file.
3. TSA should implement policies and procedures to effectively monitor grantee's performance to meet the requirements of OMB A-50, and obtain, review and maintain the appropriate performance reports, i.e., SF-424 and SF-270.

### **Q. *Improper Payments Information Act of 2002***

DHS is required to comply with the *Improper Payments Information Act of 2002* (the Act). The Act requires agencies to review all programs and activities they administer annually and identify those that may be susceptible to significant erroneous payments. For all programs and activities where the risk of erroneous payments is significant, agencies must estimate the annual amounts of erroneous payments, and report the estimates to the President and Congress with a progress report on actions to reduce them. The agency must report a statistically valid error projection for susceptible programs in its annual PAR. To facilitate the implementation of the Act, OMB issued guidance in Memorandum M-03-13, which among other matters provided a recommended process to meet the disclosure requirements. We noted that DHS did not comply with the Act, as follows:

DHS did not:

- Properly define programs and activities;
- Institute a systematic method of reviewing all programs and identifying those it believed were susceptible to significant erroneous payments; and

**Independent Auditors' Report**  
**Appendix III – Compliance and Other Matters**

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- Properly sample or compute the estimated dollar amount of improper payments.

*Recommendation:* We recommend that DHS follow the guidance provided in OMB M-03-13 in FY 2005, including re-examining the definition of a program, completing the necessary susceptibility assessments, instituting sampling techniques to allow for statistical projection of the results, and providing information for proper disclosure in its PAR.

Independent Auditors' Report  
Appendix IV – Status of Prior Year Findings

<u>Summary of Conditions</u> <u>As Reported in 2003 Performance and Accountability Report</u>	<u>FY 2004</u> <u>Status/Disposition</u>
<p><b>A. Financial Management and Personnel</b></p> <p>1. OCFO has not established a hierarchy of financial reporting authority; assessed critical process needs necessary to install proper internal controls over financial reporting; developed standard operating procedures over financial reporting; or hired or contracted sufficient qualified personnel to properly perform the financial reporting function.</p> <p>2. The Coast Guard and SNS have weaknesses in financial management oversight over the financial reporting process.</p>	<p style="text-align: center;"><b>Repeated as Material Weakness</b> (Comments A and C)</p> <p style="text-align: center;"><b>Partially Repeated as Material Weakness</b> (Comment C)</p>
<p><b>B. Financial Reporting</b></p> <p>1. OCFO and the DHS bureaus have not prepared timely consolidated financial statements; implemented electronic interfaces between bureaus and OCFO for reporting; compared TIER and CFO Vision to Treasury USSGL roll-ups and financial statement crosswalks; reviewed bureau reports for consistent use of the USSGL; prepared financial reporting instructions related to TIER and to all elements of the PAR; prepared RSSI correctly; adopted an effective process to compile year-end consolidated financial statements; identified laws and regulations that may have a direct and material effect on the financial statements; or implemented procedures to ensure accuracy and completeness of FMFTA.</p> <p>2. Coast Guard has a reporting process that is complex and requires a significant number of on-top entries, and lacks documentation of internal controls.</p> <p>3. CIS, ICE, EPR, and Coast Guard do not have documented policies and procedures for exporting data from the general ledger for the TIER submission routinely; quality control procedures over financial reports are not regularly performed; TIER input is not reconciled to outputs provided by the OCFO; and the accuracy of financial information is highly dependent on the knowledge of a few individuals.</p>	<p style="text-align: center;"><b>Partially Repeated as Material Weakness</b> (Comment C)</p> <p style="text-align: center;"><b>Repeated as Material Weakness</b> (Comment C)</p> <p style="text-align: center;"><b>Partially Repeated as Material Weakness</b> (Comment C)</p>

IV.1

**Independent Auditors' Report**  
**Appendix IV – Status of Prior Year Findings**

<p><b>C. Financial Systems Functionality and Technology</b></p> <p>1. OCFD and DHS bureaus have IT and financial system control and functionality weaknesses in entity-wide security program planning and management, access controls, application software development and change controls, system software, segregation of duties, and service continuity.</p>	<p><b>Partially Repeated as Material Weakness (Comment D)</b></p>
<p><b>D. Property, Plant, and Equipment</b></p> <p>1. Coast Guard has not maintained cost documentation for some PP&amp;E; accounted property for depreciation of improvements made for some PP&amp;E; established policies related to the useful lives of certain vessels; and properly classified repairable items as PP&amp;E.</p> <p>2. TSA lacks a property management system that interfaces and reconciles with the general ledger and does not have adequate policies and procedures for the reporting of acquisitions and disposals of property</p> <p>3. CIS/ICE has not consistently applied procedures to identify and capitalize software development costs or properly reclassify software placed into production.</p>	<p><b>Partially Repeated as Material Weakness (Comment F)</b></p> <p><b>Corrected</b></p> <p><b>Repeated as Material Weakness (Comment F)</b></p>
<p><b>E. Operating Materials and Supplies</b></p> <p>1. Coast Guard procedures and internal controls over physical counts were not operating effectively; OM&amp;S was not always properly tagged; on-hand quantities frequently did not agree to the perpetual inventory records; and the policies were not updated to ensure correct financial reporting.</p>	<p><b>Repeated as Material Weakness (Comment G)</b></p>
<p><b>F. Actuarial Liabilities</b></p> <p>1. Secret Service did not record the actuarial pension liability for employees who elected to participate in the D.C. Pension Plan.</p> <p>2. Coast Guard did not determine or record the amounts and timing of future payments related to certain entitlements consistent with Federal accounting standards.</p>	<p><b>Corrected</b></p> <p><b>Removed (Not Significant to Consolidated Financial Statements)</b></p>

IV.2

Independent Auditors' Report  
Appendix IV – Status of Prior Year Findings

- G. Transfers of Funds, Assets, and Liabilities to DHS**
- |  |   |
|--|---|
| <p>1. OCFO and DHS bureaus lack procedures to verify accuracy and completeness of March 1, 2003 transferred balances; lack controls to verify the accuracy of monthly financial reports received from legacy agencies; some Memorandums of Understanding (MOU) did not specify the reimbursement terms for services provided; and after the transfer date, some agencies operating under an MOU with DHS had difficulty providing required financial statement information needed for DHS to produce its operating statements for the seven months ended September 30, 2003.</p> | <p>Partially Repeated as Material Weakness (Comment B – related to transfers of legacy agency records to ICE)</p> |
|--|---|

**Reportable Conditions:**

- H. Drawback Claims on Duties, Taxes, and Fees**
- |  |   |
|--|---|
| <p>1. CBP lacks an automated system to track and compare drawback claims to detect and prevent excessive or erroneous drawback amounts; lacks a single integrated system; and policies and procedures for reviewing claims and supervisory review need to be improved.</p> | <p>Repeated as Reportable Condition (Comment M)</p> |
|--|---|
- I. In-Bond Movements of Imported Goods**
- |  |   |
|--|---|
| <p>1. CBP does not have a reliable process to monitor in-bond movement and also did not utilize its existing in-bond movement compliance measurement process to assess risk and compute an estimate of underpayment of duties, taxes and fees.</p> | <p>Repeated as Reportable Condition (Comment M)</p> |
|--|---|
- J. Acceptance and Adjudication of Immigration and Naturalization Applications**
- |   |   |
|---|---|
| <p>1. CIS lacks SOPs for tracking and reporting the status of immigration and naturalization applications; related system interfaces; and policies that require periodic cycle counts of its pending applications to verify the accuracy of deferred revenue.</p> | <p>Repeated as Reportable Condition (Comment K)</p> |
|---|---|
- K. Fund Balance with Treasury (FBWT)**
- |  |  |
|--|--|
| <p>1. Coast Guard did not perform timely reconciliation procedures for FBWT, and lacks SOPs on FBWT reconciliation procedures.</p> | <p>Repeated as Material Weakness (Comment E)</p> |
|--|--|

Independent Auditors' Report  
Appendix IV – Status of Prior Year Findings

<p><b>L. Intragovernmental Balances</b></p> <p>1. Coast Guard, EPR, CBP, Secret Service, CIS/ICE, and certain programs that are accounted for by legacy agencies do not have effective SOPs to track, confirm, or reconcile intragovernmental balances and transactions with trading partners.</p>	<p><b>Partially Repeated as Material Weakness</b> (Comment J)</p>
<p><b>M. Strategic National Stockpile</b></p> <p>1. SNS has fragmented accounting processes; inventory balances that were not properly valued at historical cost; IT system limitations; and lack of policies and procedures over essential accounting processes.</p>	<p><b>Removed</b> (SNS was transferred to HHS in August 2004)</p>
<p><b>N. Accounts Payable and Undelivered Orders (UDO)</b></p> <p>1. CIS/ICE had errors in the source data used to calculate accounts payable, and field personnel did not always review UDOs.</p> <p>2. TSA policies and procedures were not in place to accurately compute and accrue accounts payable transactions, and TSA did not have a reliable method to estimate accounts payable.</p> <p>3. Coast Guard had difficulty recording accurate UDO and accounts payable balances at year-end and during the year.</p>	<p><b>Repeated as Material Weakness</b> (Comment H)</p> <p><b>Corrected</b></p> <p><b>Repeated as Material Weakness</b> (Comment H)</p>

# Appendices

## Management's Response to the Independent Auditor's Report

U.S. Department of Homeland Security  
Washington, DC 20528



November 18, 2004

MEMORANDUM FOR CLARK KENT ERVIN  
INSPECTOR GENERAL

FROM: Andrew Maner  
Chief Financial Officer

SUBJECT: Management Response – Independent Auditor's Report on the Department of Homeland Security  
Fiscal Year 2004 Financial Statements

On behalf of Secretary Ridge, I am responding to the Independent Auditor's Report on the Department's fiscal year 2004 financial statements included in the Department's fiscal year 2004 *Performance and Accountability Report*.

We appreciate your efforts to audit the Department's fiscal year 2004 financial statements and provide relevant and objective recommendations on how our office can improve the Department's financial reporting practices including those at several of the components. Our second year of operation has been very challenging with the tri-bureau issues and the reassignment of the legacy agencies accounting functions to U.S. Immigration and Customs Enforcement. All of the Department's organizational elements are to be commended for their participation in this effort. Moreover, the accompanying report of your auditors would not have been possible without your office's professional assistance, technical expertise and commitment.

We concur with the ten reportable conditions that are considered to be material weaknesses as well as three other reportable conditions contained in the auditor's report. Corrective actions will be prepared to address these as well as other inherited weaknesses that were still identified in the auditor's report. We will provide your office with new or updated action plans, as appropriate, to correct these conditions. As you are well aware, some of these conditions can take several years to correct. The affected Department organizational elements will continue to focus on and strive to improve their efforts to address the conditions and noncompliance issues contained in the auditor's report.

The ability of my office to produce financial statements and the ability of your staff to carry out the audit provide clear evidence of the professional, cooperative working relationship between our staffs. I am confident that these effective relationships and partnerships will result in recognizable and measurable improvements and efficiencies in our respective reporting and auditing practices.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Maner".

Andrew Maner  
Chief Financial Officer







# Homeland Security

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