



# Performance and Accountability Report

Fiscal Year 2005



Homeland  
Security

# Core Values:

Personal attributes expected of every DHS employee

**Integrity:** “Service before Self” Each of us serves something far greater than ourselves. To our nation, we represent the President. To the world, seeking to visit or do business with us, we are often the first Americans they meet. We will faithfully execute the duties and responsibilities entrusted to us, and we will maintain the highest ethical and professional standards.

**Vigilance:** “Guarding America” We will relentlessly identify and deter threats that pose a danger to the safety of the American people. As a Department, we will be constantly on guard against threats, hazards, or dangers that threaten our values and our way of life.

**Respect:** “Honoring our Partners” We will value highly the relationships we build with our customers, partners and stakeholders. We will honor concepts such as liberty and democracy, for which America stands.

# Guiding Principles:

The philosophy that informs and shapes decision making and provides normative criteria that governs the actions of policy makers and employees in performing their work

**Integrate Our Actions:** We will blend 22 distinct agencies and bureaus, each with its employees, mission and culture, into a single, unified Department whose mission is to secure the homeland. DHS will be a cohesive, capable and service-oriented organization whose cross-cutting functions will be optimized so that we may protect our Nation against threats and effectively respond to disasters.

**Build Coalitions and Partnerships:** Building new bridges to one another are as important as building new barriers against terrorism. We will collaborate and coordinate across traditional boundaries, both horizontally (between agencies) and vertically (among different levels of Government). We will engage partners and stakeholders from Federal, State, local, tribal and international governments, as well as the private sector and academia. We will work together to identify needs, provide service, share information, and promote best practices. We will foster inter-connected systems, rooted in the precepts of federalism that reinforce rather than duplicate individual efforts. Homeland security is a national effort, not solely a federal one.

**Protect Civil Rights and Civil Liberties:** We will defend America while protecting the freedoms that define America. Our strategies and actions will be consistent with the individual rights and liberties enshrined by our Constitution and the Rule of Law. While we seek to improve the way we collect and share information about terrorists, we will nevertheless be vigilant in respecting the confidentiality and protecting the privacy of our citizens. To suggest that we must trade our civil liberties for security is a false choice; we can and we will protect both.

**Develop Human Capital:** Our most valuable asset is not new equipment or technology, but rather our dedicated and patriotic employees. Their contributions will be recognized and valued by this Department. We will hire, train and place the very best people in jobs to which they are best suited. We are committed to personal and professional growth and will create new opportunities to train and to learn. We will create a model human resources management system that supports equally the mission of the Department and the people charged with achieving it.

**Innovate:** We will introduce and apply new concepts and creative approaches that will help us meet the challenges of the present and anticipate the needs of the future. We will support innovation and agility within the public and private sector, both by providing resources and removing red tape so that new solutions reach the marketplace as soon as possible. We will harness our Nation’s best minds in science, medicine and technology to develop applications for homeland security, and we will nurture the next generation by providing incentives for students who choose security-related fields. Above all, we will look for ways to constantly improve—we will recognize complacency as an enemy.

**Be Accountable:** We will seek measurable progress as we identify and prioritize vulnerabilities and detect evolving threats to the American homeland. We will assess our work, evaluate the results, and incorporate lessons learned to enhance our performance. We will reward excellence and fix what we find to be broken. We will communicate our progress to the American people, operating as transparently as possible and routinely monitoring our progress.

## Message from the Secretary

NOVEMBER 15, 2005



I am pleased to provide the Department of Homeland Security's Performance and Accountability Report for fiscal year 2005. The report provides a clear view of the Department's achievements and focused goals to preserve our freedoms and protect our homeland. When I was given the opportunity earlier this year to lead this outstanding Department, I quickly determined that while as a whole it is still relatively new, the people who make up its soul have a deep seated passion. It's the drive to succeed that inspires everyone who works with this organization. The progress made since the inception of the Department has been outstanding, and I have every confidence that the nation can expect the same dedication to duty and excellence that I immediately recognized upon my arrival.

While we all can be very proud of our accomplishments and confident of continued success, the Department is committed to self-evaluation and improvement. The Department just completed a comprehensive review of our operations, policies and structures, a process known as the Second Stage Review (2SR). This review examined nearly every element of the Department of Homeland Security in order to recommend ways that we could: better manage risk in terms of threat, vulnerability and consequence; prioritize policies and operational missions according to this risk-based approach; and establish a series of preventive and protective steps that would increase security at multiple levels.

We began 2SR with several core principles in mind. First, the Department must base its work on priorities that are driven by risk and pursued with balance. Our goal is to optimize our security, but not security at any price. Our security strategy must promote Americans' freedom, privacy, prosperity, and mobility. Second, our Department must drive improvement with a sense of urgency. The clock is ticking – as the events of the last few months have all too tragically shown. Natural disasters must be planned for and recovery plans must be robust. Also, terrorism will not relent, and we cannot afford to fall behind. Third, the Department must be an effective steward of public resources – setting priorities, meeting those priorities, utilizing sound financial management, measuring performance and share the results, and fostering innovation. Finally, our work must be guided by the understanding that effective security is built upon a network of systems that spans all levels of government and the private sector. DHS does not, and should not, own or control all of these systems. We must set a clear national strategy and design an architecture in which separate roles and responsibilities for security are fully integrated among public and private stakeholders. In doing that, we must draw on the strength of our considerable network of assets, functioning as seamlessly as possible with state and local leadership, first responders, the private sector, our international partners, and, most certainly, the general public. Based on the conclusions drawn from this review, I created a Six-Point Agenda for the Department of

Homeland Security to ensure that the Department's policies, operations, and structures are aligned in the best way to address the potential threats – both present and future – that face our nation.

This Six-Point Agenda will guide the Department in the near term and set the course for the future. The six points are:

1. Increase overall preparedness, particularly for catastrophic events either natural or manmade;
2. Create better transportation security systems to move people and cargo more securely and efficiently;
3. Strengthen border security and interior enforcement and reform immigration processes;
4. Enhance information sharing with our partners;
5. Improve DHS financial management, human resource development, procurement and information technology; and
6. Realign the DHS organization to maximize mission performance.

As we remained open to change and improvement, our Department's accomplishments had a substantial positive impact on our nation's security.

Hurricanes Katrina and Rita and their aftermath presented this Department with unique challenges. Federal support to state and local officials, volunteer organizations and victims and their families who have been devastated by these hurricanes continues around the clock in an effort to provide recovery support to those affected by these unprecedented natural disasters. The men and women of the Federal Emergency Management Agency, the U.S. Coast Guard, Customs and Border Protection, Immigration and Customs Enforcement, the Transportation Security Administration and others have spent countless hours working to distribute federal aid and conduct search, rescue, and response missions throughout the Gulf Coast region. Within the Office of the Inspector General, we established an Office for Hurricane Katrina Oversight. This office, along with other initiatives within the Department's CFO and CPO offices, focuses on preventing problems through a proactive program of internal control reviews and contract audits to ensure disaster assistance funds are being spent wisely. These are some of the more well known ways we are performing our duties in the wake of these tragedies, but the tireless determination and self-sacrifice of thousands of Department employees and volunteers will surely be integral to lasting recovery.

A full accounting of the response to Hurricane Katrina will yield lessons for the Department and indeed the entire federal government, and these lessons will be signposts for improving the government's response to future disasters. This tragedy has emphasized how critical it is that we ensure our planning and response capabilities perform with seamless integrity and efficiency in any type of disaster situation—even one of such cataclysmic nature. The Department's Preparedness Directorate currently is working with federal, state, and local officials to review the emergency operational plans of every major urban area to ensure that those plans are clear, detailed, and up-to-date. These steps are just the beginning, and in the weeks and months ahead, we will move forward to enhance our preparedness capability and ensure that the United States is ready to meet any type of threat or disaster with which we are faced.

Following train bombings around the world, the Department took important action not only by increasing funding for rail security, but by conducting over 2,600 individual consequence assessments. The Transportation Security Administration and the Federal Transit Administration are working together with the transit industry and with first responders to strengthen the overall security capabilities of our

transit systems, with a special emphasis on the largest systems. Together, we have developed a significant tool-kit of protective measures, which include the coordination and training needed to recover from a possible attack. Multiple funding streams within the Department have been made available to support these kinds of transit-oriented projects, including eligibility for roughly \$8.6 billion under our State Homeland Security and Urban Area Security Initiative grant programs.

We are also determined to increase our focus on the job of better sharing the intelligence we gather and the intelligence we analyze with our customers inside the Department, with the intelligence community as a whole, and with our frontline first responders at the state and local level. Therefore, we designated the Assistant Secretary for Information Analysis as the Chief Intelligence Officer for the Department of Homeland Security. The Chief Intelligence Officer heads a strengthened Intelligence and Analysis division that reports directly to me. This office ensures that intelligence is coordinated, fused and analyzed within the Department so that we have a common operational picture of what's going on and provides the primary source of information for state, local and private sector partners.

The ability of undocumented individuals to enter our country represents an obvious homeland security threat. Flagrant violation of our borders undercuts the rule of law, undermines our security, and imposes particular economic strains on our border communities. When we do not control our borders, we also risk entry into the U.S. of terrorists or others wishing to do us harm. Ending illegal immigration means both tough enforcement and action to reduce the demand that draws illegal migrants into the country. Therefore, we have developed a strategy for reforming our border security and immigration system. This strategy is a three-pillar, comprehensive approach that focuses on controlling the border, building a robust interior enforcement program, and establishing a Temporary Worker Program. I will continue working to implement this strategy with both the Executive and Legislative Branches.

The Department awarded over three billion in fiscal year 2005 grant appropriations to increase the preparedness and response capabilities of our local communities. This funding helped communities buy much needed equipment and training, as well as protect and secure critical infrastructure and key resource sites.

The Department also announced a substantial increase in port security grants this year. The FY 2005 Port Security Grant Program (PSGP) used a risk-based formula to allocate funds to protect our ports from acts of terrorism. The program fortifies security at our nation's ports by providing funding to increase protection against potential threats from small craft, underwater attacks and vehicle borne improvised explosives, and to enhance explosive detection capabilities aboard vehicle ferries and associated facilities.

To protect our communities, the Department's Immigration and Customs Enforcement bureau participated in Operation Community Shield, a law enforcement operation that resulted in the arrest of members of over 80 different gangs. Many were gang leaders with exceptionally violent criminal histories. Among the horrific crimes committed by some of the people we apprehended include murder, rape, assault, burglary, and weapons and narcotics offenses. Throughout the entire Community Shield initiative, the Department worked closely with international partners and with our domestic law enforcement partners at all levels to identify gang organizations and their memberships, and to act on this intelligence in order to target those criminal gangs who threaten our communities and our homeland.

The President's Management Agenda continues to guide the Department's efforts to make its programs more efficient, effective and results-oriented. We are making substantial 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 continues to make real progress in meeting the two specific program initiatives of Federal Real Property Assets Management and Research and Development Investments. This year's report again discusses initiatives to transform the President's Management Agenda into the Department's own results agenda.

My assurance statements and information related to the Federal Managers' Financial Integrity Act's Section 2 and Section 4, the Department of Homeland Security Financial Accountability Act, as well as an assessment of performance data completeness and reliability, are provided in the Management Assurances section of this report.

So, moving forward together, let us continue building upon that which has been successfully founded over nearly three years at the Department of Homeland Security. We will proceed with unyielding focus and with determination.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Chertoff", written in a cursive style.

Michael Chertoff

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# Executive Summary

## Executive Summary

### WHO WE ARE

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**T**he U.S. Department of Homeland Security is a cabinet-level agency of the Executive Branch 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 across our borders.

To accomplish its mission, the Department in fiscal year 2005 was organized into five directorates and several components:

### DIRECTORATES

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- The **Information Analysis and Infrastructure Protection (IAIP) Directorate** identifies and assesses a broad range of intelligence information concerning threats to the nation, 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 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;
- 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.

## COMPONENTS

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- The **Office of the Secretary** includes components that share a direct reporting structure to the Secretary and Deputy Secretary. These components include the offices of the General Counsel, Civil Rights and Civil Liberties, Legislative Affairs, Public Affairs and International Affairs, as well as the Privacy Office and Counter Narcotics Office. The Office of the Chief Financial Officer reports directly to both the Secretary and the Under Secretary for Management;
- 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 (Secret Service)** protects the President and Vice President, their families, heads of state and other designated individuals; investigates threats against these individuals; protects designated facilities; and plans and implements security for designated national special security events. The Secret Service 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)** 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

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**T**he more than 180,000 men and women of the Department of Homeland Security consistently achieve results that make our citizens more secure. We make the vision of a free but secure America a reality by ensuring that our borders remain open to legitimate travel and trade but closed to terrorists. We facilitate fast recoveries should disasters occur by proactively planning for natural and man-made disasters. Our daily activities are important in ensuring that Americans remain safe and secure.

Hurricanes Katrina and Rita were the focus of this Department at the end of the fiscal year and will continue demanding our time, attention and resources until recovery can be considered complete. Since the devastation was on such a large scale, our efforts will not end soon, but we are confident that this Department will continue to rise to the occasion and support the citizens it serves.

## ABOUT THE FISCAL YEAR 2005 PERFORMANCE AND ACCOUNTABILITY REPORT

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**T**he Department of Homeland Security's *Fiscal Year 2005 Performance and Accountability Report* 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 appropriated by Congress. Our performance measures are used to monitor our actions and enable executives to make decisions regarding future priorities. This *Performance and Accountability Report* includes a year-end report on achieving the performance targets the Department set for fiscal year 2005.

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;*
- *Chief Financial Officer Act of 1990;* and
- *Department of Homeland Security Financial Accountability Act of 2004.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Section I, Management's Discussion and Analysis, provides an overview of the entire report. This section describes the Department's mission, organization and progress in implementing the strategic plan and the *President's Management Agenda*. This section highlights the most important performance and financial results of fiscal year 2005 against the performance budget for the year. This section also contains the Secretary's assurances and the controls and corrective actions that have been put in place to remedy material weaknesses. Also included is the Office of the Inspector General's (OIG) summary of the most important management and performance challenges facing the Department. Challenges identified in this year's OIG report include:

- Disaster Response and Recovery;
- Consolidating the Department's Components;
- Contract Management;

- Grants Management;
- Financial Management;
- DHS Financial Accountability Act;
- Human Capital Management;
- Integration of Information Systems;
- Security of Information Technology Infrastructure;
- Infrastructure Threat Assessment;
- Border Security;
- Transportation Security; and,
- Trade Operations and Security.

Management's response to the OIG report completes Management's Discussion and Analysis.

## PERFORMANCE INFORMATION

Section II, Performance Information, reports the Department's performance relative to each of its goals and provides an assessment of that information's completeness and reliability. This section also provides summaries of key evaluations of departmental programs and the Department's fiscal year 2005 budget.

In the Annual Performance Plan for 2005, as contained in the fiscal year 2006 Performance Budget Overview, we established 113 specific targets for each of our programs to achieve. The table below summarizes our success at meeting these targets broken down by Strategic Plan goals.

## FISCAL YEAR 2005

### Performance Summary

Strategic Goal	# of Performance Goal Targets	% of Targets Met
1. Awareness	11	82%
2. Prevention	47	68%
3. Protection	36	75%
4. Response	5	80%
5. Recovery	1	100%
6. Service	9	67%
7. Organizational Excellence	4	100%
<b>Total</b>	<b>113</b>	<b>73%</b>

In addition, to achieve these targets, other typical accomplishments include:

To increase **AWARENESS** we:

- Enhanced Maritime Domain Awareness by implementing a USCG joint operations command; and
- Released the findings of a joint Secret Service – Carnegie Mellon Software Engineering Institute’s study on threats to critical infrastructure computer systems.

To heighten **PREVENTION** we:

- Denied entry to numerous known criminals and visa violators through the use of the Department’s US-VISIT program’s biometric identification system;
- Increased operational control of the Southwestern Border through CBP’s Arizona Border Control initiative;
- Established the Fraud Detection and National Security Unit (FDNS) to lead the national anti-fraud operations for the USCIS; and
- Established the Science and Technology Requirements Council (SRC) to provide the operational components of the Department with a mechanism to bring their operational mission needs to the S&T Directorate.

To enhance **PROTECTION** we:

- Provided security advances for protective stops in support of the presidential campaign;
- Completed the third full-scale exercise in the Department’s Top Officials series, known as TOPOFF 3, which was the largest and most comprehensive terrorism-response exercise ever conducted, involving more than 10,000 participants from more than 275 government and private-sector organizations; and
- Met our goal of implementing planned activities geared toward lowering maritime security risk

and providing the visibly demonstrated capability and heightened awareness that disrupts criminal and terrorist planning.

To better our **RESPONSE** we:

- Operated one of the largest search-and-rescue operations in United States history following Hurricane Katrina;
- Expanded cooperation among multiple U.S. government agencies to enhance the sharing of biometric data and other information between domestic and international organizations; and
- Met our aggressive goal of limiting oil spills by providing a unified framework to tie together the efforts of maritime industries, and local, state and Federal officials in responding to catastrophic environmental threats.

To upgrade **RECOVERY** we:

- Provided Federal support to state and local officials, volunteer organizations, and families who have been devastated by hurricanes Katrina and Rita. Federal benefits as of the end of fiscal year 2005 include:
  - Katrina total expedited financial assistance awarded: \$2.4 billion to 688,000 households.
  - Rita total expedited financial assistance amount awarded: \$78 million to 37,000 households.
  - Total Transitional Housing Assistance awarded: \$748 million reflecting 317,000 approved applications.

To further **SERVICE** we:

- Increased productivity and refined processes and automated services, which yielded a significant reduction in the backlog of applications for immigration services and benefits from approximately 3.8 million cases in January 2004 to approximately 1 million in September 2005;
- Opened USCIS offices nationwide to displaced customers from the Gulf Coast in order to replace immigration documents and reschedule naturalization ceremonies; and
- Continued to maintain the Ongoing Vessel Traffic Service, waterways management improvements and existing visual and radio aids to navigation, which have contributed to a steady decline in collisions, allisions (vessels striking a fixed object) and groundings (CAG).

To expand **ORGANIZATION EXCELLENCE** we:

- Completed a review of the entire Department and made recommendations to the President and the Legislative Branch detailing a restructuring that will allow the Department to achieve better results;
- Consistently provided all our employees opportunities for additional training to broaden their abilities; and
- Strived to enhance the one-culture ideal in all components of the Department.

**Note:** Shortly after the Department was created in 2003, the Secretary established seven strategic goals to guide our priorities and inform our actions. These goals and their subsidiary objectives describe our role and responsibility to the nation. We realized, through continuous use of the Department's Strategic Plan during fiscal year 2005 that some of the strategic objectives should be revised.

Accordingly, we made selective adjustments that do not produce widespread changes in the plan, but will be communicated with the fiscal year 2007 budget submission per Office of Management and Budget Circular A-11. The Department's objectives included in this report reflect those adjustments and were used during fiscal year 2005.

## FINANCIAL INFORMATION

Section III, Financial Information, contains the Department's consolidated financial statements and disclosures. Below are some highlights from fiscal year 2005. The Department:

- Became a CFO Act agency with passage of the Department of Homeland Security Financial Accountability Act (FAA). The Department implemented FAA internal control provisions by: (1) establishing an Internal Control Committee, (2) issuing an Implementation Guide for complying with the Department of Homeland Security Financial Accountability Act, (3) completing an internal control assessment of the consolidated financial reporting process within the Office of the Chief Financial Officer, and (4) preparing a Secretary's Assertion on Internal Controls over Financial Reporting.
- Commenced recovery audit contract work at CBP and ICE which, to date, has identified more than \$2.2 million and recovered more than \$1.8 million of improper payments and completed improper payment sample testing at all components. The Department completed these actions in support of the President's Management Agenda (PMA) erroneous payments program initiative.
- Expanded the Working Capital Fund (WCF) from 29 programs with a spending activity of \$107 million in fiscal year 2004 to 57 programs with a spending activity of \$301 million in fiscal year 2005. The Department achieved WCF-related savings by centralizing services and avoiding redundancies across components. It also synchronized the WCF and appropriated budget request cycles.
- Resolved a fiscal year 2004 reportable condition at USCIS related to deferred revenue on Immigration and Naturalization applications. This reportable condition was a long-standing material weakness at the pre-Department of Homeland Security legacy agency, the Department of Justice.
- Implemented a new Oracle Federal financials system at the Secret Service and deployed the last phase of CBP's SAP (SAP America Inc.) enterprise solution implementation.
- Consolidated the number of financial management centers from 10 to 8 as the Federal Protective Service (legacy General Services Administration) became part of ICE, and TSA switched accounting providers from the Federal Aviation Administration (Department of Transportation) to the USCG.
- Qualified for more than \$8.6 million in bankcard program refunds. Bankcard spending, with its sharply lower procurements, grew to more than \$1 billion.

## IMPLEMENTING THE PRESIDENT'S MANAGEMENT AGENDA

**T**he *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 original initiatives: Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanding Electronic Government, and Budget and Performance Inte-

gration. In addition to these initiatives, two new initiatives were subsequently added to the scorecard: Eliminating Improper Payments and Real Property. The Office of Management and Budget (OMB) 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 to achieve standards on each initiative. Overall, the Department improved in one of the progress categories from last year's scorecard. The scorecard OMB released for the period ended September 30, 2005, rated the Department's status as yellow on three of the seven initiatives and red on the remaining four. Progress scores were five green, one yellow and one red; a decline by one level in two categories from the previous year's scorecard due to OMB's higher standards for fiscal year 2005.

It should be noted that each year the standards for attaining green in the progress area are made more demanding. Additionally, 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.

PRESIDENT'S MANAGEMENT AGENDA SCORECARD		
(as of September 30, 2005)		
	FY 2005	
	Status	Progress
Human Capital		
Competitive Sourcing		
Financial Performance		
E-Government		
Budget & Performance		
Eliminating Improper Payments*		
Real Property*		
* Program-Specific Initiatives		

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 one or more serious flaws.

## NEXT STEPS

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**L**ooking toward the future, we will be a focused, 21st century department that coordinates the resources and efforts of the Federal government against terrorism and prepares for natural disasters and other incidents. 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 as well as prepare, plan and respond to natural disasters.

As an outcome of the Secretary's Second Stage Review conducted this year, the Department developed a six-point agenda to ensure that the Department's policies, operations and structures are aligned in the best way to address the potential threats – both present and future – that face our nation.

The six-point agenda will guide the Department in the near term and result in changes that will:

1. Increase overall preparedness, particularly for catastrophic events;
2. Create better transportation security systems to move people and cargo more securely and efficiently;
3. Strengthen border security and interior enforcement and reform immigration processes;
4. Enhance information sharing with our partners;
5. Improve the Department's financial management, human resource development, procurement, and information technology; and
6. Realign the Department's organization to maximize mission performance.



# Management's Discussion and Analysis

Part I

## The Department at a Glance



### Vision

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

### HISTORY

**G**uided 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 agency, the Department of Homeland Security. The purpose of the new Department, which incorporated 180,000 employees from 22 organizations, 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 three years of operation, the Department has achieved many important operational and policy objectives.

### MISSION

**W**e 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

*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.



To accomplish its mission, the Department in fiscal year 2005 was organized into five directorates and several components:

## DIRECTORATES

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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
  - **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 the Federal government and 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 components:
  - 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. This ensures that American borders are the last line of defense, not the first. CBP is also responsible for processing all people, vehicles and cargo entering the United States; 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; regulating and facilitating international trade and travel; protecting American businesses from theft of intellectual property and unfair trade practices; collecting import duties; maintaining export controls; 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 also provides protection and security for Federal Government buildings. 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. FLETC 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 attacks 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 material resources; program performance planning; and identification and tracking of performance measures aligned with the Department's mission. The Chief Financial Officer (CFO), Chief Information Officer (CIO), Chief Human Capital Officer (CHCO), Chief Procurement Officer (CPO) and Chief of Administrative Services (CAO) are within the Management Directorate. The CFO and CIO also report directly to the Secretary of Homeland Security.

## COMPONENTS

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

The **Office of the Secretary** includes components that share a direct reporting structure to the Secretary and Deputy Secretary. Some of these components include the Offices of the General Counsel,

Civil Rights and Civil Liberties, Legislative Affairs, Public Affairs and International Affairs, as well as the Privacy Office and Counter Narcotics Office.

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 (Secret Service)** protects the President and Vice President, their families, heads of state and other designated individuals; investigates threats against these individuals; protects designated facilities; and plans and implements security for designated national special security events. The Secret Service 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 non-immigrant 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.

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.

*Some of the things the men and women of the Department of Homeland Security do on an average day are listed below.*

- Process more than 1.1 million passengers and pedestrians, 365,079 vehicles, and 64,432 truck, rail, and sea containers through our ports of entry.
- Seize 4,224 prohibited plant materials or animal products at our ports of entry.
- Screen approximately 1.8 million domestic and international passengers -- each carrying an average of two bags -- before they board commercial aircraft.
- Intercept more than 36,600 prohibited items at airports -- including two firearms -- each day.

- Assist 117 people in distress at sea, interdict 30 illegal migrants, conduct 90 search and rescue, and board and inspect 122 vessels in the maritime environment.
- Respond to 11 oil and hazardous chemical spills in the maritime environment.
- Conduct 135,000 national security background checks, process 30,000 applications for immigrant benefits, and issue 7,000 Permanent Resident Cards (green cards).
- Welcome 2,100 new citizens, 3,500 new permanent residents, and nearly 200 refugees from around the world.
- Grant asylum to 80 individuals already in the United States, naturalize 20 individuals serving in the U.S. military and help American parents adopt nearly 80 foreign-born orphans.
- Provide weapons of mass destruction (WMD) training to 175 first responders to improve their capacity to prevent, protect against, respond to, and recover from acts of terrorism and other disasters.
- Provide law enforcement training to approximately 2,240 law enforcement officers and agents from 82 Partner Organizations.

**Reorganization Note:** Based on the Department's Second Stage Review, the Department proposed realigning the Department of Homeland Security to increase its ability to prepare, prevent and respond to terrorist attacks and other emergencies. These changes will better integrate the Department and give its employees better tools to accomplish their mission. As a result of this realignment, certain organizational changes will take effect in fiscal year 2006.

A six-point agenda will guide the Department in the near term and result in changes that will:

1. Increase overall preparedness, particularly for catastrophic events;
2. Create better transportation security systems to move people and cargo more securely and efficiently;
3. Strengthen border security and interior enforcement and reform immigration processes;
4. Enhance information sharing with our partners;
5. Improve the Department's financial management, human resource development, procurement, and information technology; and
6. Realign the Department's organization to maximize mission performance.

## ORGANIZATIONAL INITIATIVES: STRUCTURAL ADJUSTMENTS

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Supporting the agenda, the Secretary proposes to realign the Department to increase its ability to prepare, prevent, and respond to terrorist attacks and other emergencies. These changes will better integrate the Department and give employees better tools to accomplish their mission.

**Centralize and Improve Policy Development and Coordination.** The new Directorate of Policy will:

- Be the primary Department-wide coordinator for policies, regulations, and other initiatives;
- Ensure consistency of policy and regulatory development across the Department;
- Perform long-range strategic policy planning;
- Assume the policy coordination functions previously performed by the BTS Directorate; and
- Include the Office of International Affairs, Office of Private Sector Liaison, Homeland Security Advisory Council, Office of Immigration Statistics, and Senior Asylum Officer.

**Strengthen Intelligence Functions and Information Sharing.** A new Office of Intelligence and Analysis will ensure that information is:

- Gathered from all relevant field operations and other parts of the intelligence community;
- Analyzed with a mission-oriented focus;
- Informed to senior decision-makers; and
- Disseminated to the appropriate Federal, state, local and private-sector partners.

Led by a Chief Intelligence Officer reporting directly to the Secretary, the Office of Intelligence will be comprised of analysts within the former Information Analysis directorate and draw on the expertise of other department components with intelligence collection and analysis operations.

**Improve Coordination and Efficiency of Operations.** The new Director of Operations Coordination will:

- Conduct joint operations across all organizational elements;
- Coordinate incident management activities; and
- Use all resources within the Department to translate intelligence and policy into immediate action.

The Homeland Security Operations Center, which serves as the nation's nerve center for information sharing and domestic incident management on a 24/7/365 basis, will be a critical part of this new office.

**Enhance Coordination and Deployment of Preparedness Assets.** The Directorate for Preparedness will:

- Consolidate preparedness assets from across the Department;
- Facilitate grants and oversee nationwide preparedness efforts supporting first responder training, citizen awareness, public health, infrastructure and cyber security and ensure proper steps are taken to protect high-risk targets;
- Focus on cyber security and telecommunications; and

- Include a new Chief Medical Officer, responsible for carrying out the Department's responsibilities to coordinate the response to biological attacks.

Managed by an Under Secretary, this Directorate will include infrastructure protection; assets of SLGCP, which is responsible for grants, training and exercises; the U.S. Fire Administration; and the Office of National Capitol Region Coordination.

## OTHER DEPARTMENT REALIGNMENTS

### **Improve National Response and Recovery Efforts by Focusing FEMA on Its Core Functions.**

FEMA will report directly to the Secretary. In order to strengthen and enhance the nation's ability to respond to and recover from man-made or natural disasters, FEMA will focus on its traditional and vital mission of response and recovery.

**Integrate Federal Air Marshal Service (FAMS) into Broader Aviation Security Efforts.** The Federal Air Marshal Service will be moved from ICE to TSA to increase operational coordination and strengthen efforts to meet the common goal of aviation security.

**Merge Legislative and Intergovernmental Affairs.** A new Office of Legislative and Intergovernmental Affairs will merge certain functions between the Office of Legislative Affairs and the Office of State and Local Government Coordination in order to streamline intergovernmental efforts and better share homeland security information with members of Congress as well as state and local officials.

**Assign Office of Security to Management Directorate.** The Office of Security will be moved to return oversight of that office to the Under Secretary for Management in order to better manage information systems, contractual activities, security accreditation, training and resources.

## Implementing the President's Management Agenda

**T**he *President's Management Agenda* (PMA) was launched in August 2001 as a strategy for improving the management and performance of the Federal government. The PMA focuses on the areas where deficiencies were most apparent and where the government could begin to deliver concrete, measurable results. The agenda includes five original PMA initiatives, and two additional government-wide initiatives.

The five original PMA initiatives 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 for 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 PMA established clear, government-wide goals or standards for success in budget and performance integration.

The two additional PMA initiatives are:

- **Eliminating Improper Payments** – accurately identifying, preventing and eliminating erroneous payments.
- **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.

OMB has rated the Department's performance in each of the five critical areas and the two additional initiatives, as shown below.

PRESIDENT'S MANAGEMENT AGENDA SCORECARD				
(As of September 30, 2005)				
	Status FY03	Status FY04	Status FY05	Progress FY05
Human Capital	Red	Red	Yellow	Green
Competitive Sourcing	Yellow	Yellow	Yellow	Green
Financial Performance	Red	Red	Red	Yellow
E-Government	Red	Red	Red	Red
Budget & Performance	Red	Yellow	Yellow	Green
Eliminating Improper Payments*	White	White	Red	Green
Real Property*	White	Red	Red	Green

\* Program-Specific Initiatives  
Eliminating Improper Payments is new for FY 2005. It replaces R&D Investment Criteria reported in the Department's FY 2004 Performance and Accountability Report.

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 one or more serious flaws.

Each year the standards for green become more demanding. Despite higher fiscal year 2005 standards, the Department of Homeland Security attained green progress scores in five of seven areas.

The following is a summary of the Department's accomplishments by area for fiscal year 2005.

## ENHANCED STRATEGIC MANAGEMENT OF HUMAN CAPITAL

- The Department's new Human Resources Management System, MAXHR, links individual performance to strategic goals and better rewards top performers. We also initiated standardized leadership development training, implemented a new performance appraisal system for the Senior Executive Service (SES), and completed a mapping and assessment of the Department's current hiring process to enable improved competition.
- We developed a SES/Senior Leader Candidate Development Program, identified common core business processes to enable shared services and prototyped a Department-wide Human Re-

## INCREASED COMPETITIVE SOURCING

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- The Department continues to improve the quality and quantity of its law enforcement mission capability by expanding implementation of the PMA Competitive Sourcing Initiative. As part of the 2005 Department of Homeland Security Federal Activities Inventory Reform (FAIR) Act (P.L. 105-270), inventories of governmental functions were identified as performing commercial activities that could be performed under a competitively awarded contract or reimbursable agreement with another agency. This has required managers and employees to focus on the Department's mission and to commit to protecting the nation by using all of our available resources in the most efficient manner possible and without regard to historical approaches or a culture of reliance on in-house resources.
- The Department has completed 12 competitions involving 362 full-time employees (FTE). Our plan to get to a green rating includes completing studies involving 1,811 FTE in fiscal year 2006 and more than 3,000 FTE each year thereafter.
- The Department is coordinating its Competitive Sourcing plans with its Work Force Planning requirements to help mitigate the adverse impacts of emerging skill gaps, and hiring and training costs, and to minimize the adverse impacts on employees that may be caused by a full and open competition for the performance of commercial work.

## IMPROVED FINANCIAL PERFORMANCE

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This year, the Department initiated the CFO's Three Year Vision for Department of Homeland Security Financial Reporting. The theme for fiscal year 2005 was "Full Visibility and Corrective Actions." The goals for fiscal year 2005 were to: (1) submit the *Fiscal Year 2005 Performance and Accountability Report* on time, (2) receive a qualified balance sheet opinion, (3) reduce the number of material weaknesses, and (4) prepare a Secretary's Assertion on Internal Controls over Financial Reporting. The Department successfully met goals 1 and 4. It is noteworthy that separate, stand-alone audits at TSA and CBP successfully supported the Department's goals. At the consolidated level, goals 2 and 3 were not met. Material weaknesses at several components prevented the auditors from completing the testing necessary to support an overall opinion on the Department's fiscal year 2005 Consolidated Balance Sheet. Although the number of material weaknesses was not reduced in fiscal year 2005, many corrective actions were successfully carried out by components. Also, a formal monitoring program was implemented to oversee and measure component progress in carrying out corrective action plans.

- The CFO established an Internal Control Committee to coordinate actions and plan for compliance with the internal control provisions of the Department's Financial Accountability Act. This Act requires the Secretary to include in the *Fiscal Year 2005 Performance and Accountability Report* an assertion on the Department's internal controls over financial reporting. The CFO has already launched plans to meet the Act's fiscal year 2006 audit of internal controls over financial reporting requirement.
- The Department must receive a clean audit opinion on its consolidated financial statements and correct all material weaknesses in internal control before a green score will be possible. To surmount these challenges, the components will need to revamp their corrective action plans, re-

solve all material weaknesses, and more efficiently manage the audit. The internal control audit process, which the Department will undertake in fiscal year 2006, should provide us with the improved tools and insights needed to fully meet the goals of the President's Management Agenda.

## EXPANDED ELECTRICAL GOVERNMENT

- The Department worked diligently in fiscal year 2005 to improve the effectiveness and efficiency of the delivery of services, information sharing and enterprise transformation. We achieved this by inventorying the Department's information technology (IT) systems; certifying the security and accreditation of approximately 70 percent of the Department's major IT systems; reviewing 100 percent of all departmental IT exhibits for OMB compliance requirements; increasing earned value monitoring and project management models to ensure that the Department is pursuing the most efficient and cost-effective mission critical systems and investments; and developing the National Information Exchange Model (NIEM) in conjunction with the Department of Justice (DOJ) to standardize Extensible Markup Language (XML) messages to facilitate information sharing within Federal, state, local and tribal governments.
- The Department also increased communication technology through the deployment of the first phase of the Homeland Security Secure Data Network (HSDN) to 56 departmental sites. This network is a unified system and program that enables the sharing and protection of secret-level data between Federal partners.
- The Department used the Homeland Security Enterprise Architecture (HLS EA) Knowledge Repository to reduce duplicative investments, provide the foundation for identification of Transformational Portfolios and ensure optimization of E-Gov implementation. OMB recognized the increased maturity of HLS EA as a tool for information sharing cost reduction with a maturity score of 3.38 up from 2.62 the prior year.
- Finally, the Department improved data accessibility through the creation of the Section 508 Program Management Office (PMO) by the CIO and the Office for Civil Rights and Civil Liberties. The new Section 508 PMO is responsible for ensuring that all electronic and information technologies developed, procured, maintained, or used by the Department are accessible to employees and consumers with disabilities.

## IMPROVED BUDGET AND PERFORMANCE INTEGRATION

The Department continued progress in integrating performance-based planning, programming, budgeting and execution. Programming and budgeting is driven to increase performance to achieve the Department's Strategic Plan. The strategic goals and objectives in our plan provided the framework and cornerstone of the *Future Years Homeland Security Program (FYHSP)* and is the road map for driving performance through annual resource planning and program evaluations. We have linked performance goals with resource-allocation plans to form performance-driven budgets. In order to continue a strong linkage between budget and management decisions, strategic planning and program performance, the Department, in the last 12 months, has:

- Developed the fiscal year 2006 to fiscal year 2010 FYHSP - This five-year resource plan, submitted to Congress in March 2005, helps meet strategic goals and objectives by identifying our

long-range strategies and resource requirements to implement priority programs. This plan 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 submit five-year resource and performance requirements.

- Made strategic resource decisions performance based - As part of the programming phase of the Department's process, performance impact of resource alternatives are foremost in operational and investment decisions.
- Linked program goals to program budgets - We linked our fiscal years 2005 and 2006 budget requests to the individual program goals, which collectively achieve the strategic goals and objectives articulated in the Strategic Plan.
- Measured and reported 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 the Department's managers.

## ELIMINATING IMPROPER PAYMENTS

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**I**n fiscal year 2005, the Department completed the next phase of its Improper Payments Information Act of 2002 (IPIA) program. This phase focused on establishing baseline estimated improper payment error rates for each component. These rates were obtained by completion of random sample payment testing. Each component tested its program that issued the largest amount of disbursements in fiscal year 2004 (with the exception of EP&R, which tested its second largest program highlighted in an improper payment-related OIG finding). No component was found to have a program at high risk for issuing improper payments (defined by OMB as issuing more than \$10 million of improper payments with an error rate above 2.5 percent). Results are listed in Section III, Financial Information.

- Recovery audit contract work at ICE nears completion. To date, \$2.2 million of fiscal year 2004 disbursements are improper. This work, which includes components whose accounting services are provided by ICE, has an estimated balance of \$1.1 million in remaining improper payments. Recovery audit work at CBP is at an early stage with work expected to fully ramp up next year. Additional components will undergo audit recovery work in fiscal year 2006.
- In fiscal year 2006, the Department anticipates achieving full IPIA compliance by components testing all sizable programs, by expanding recovery audit work, by testing FEMA's Gulf Coast hurricane-related payments, and by completing internal control work.

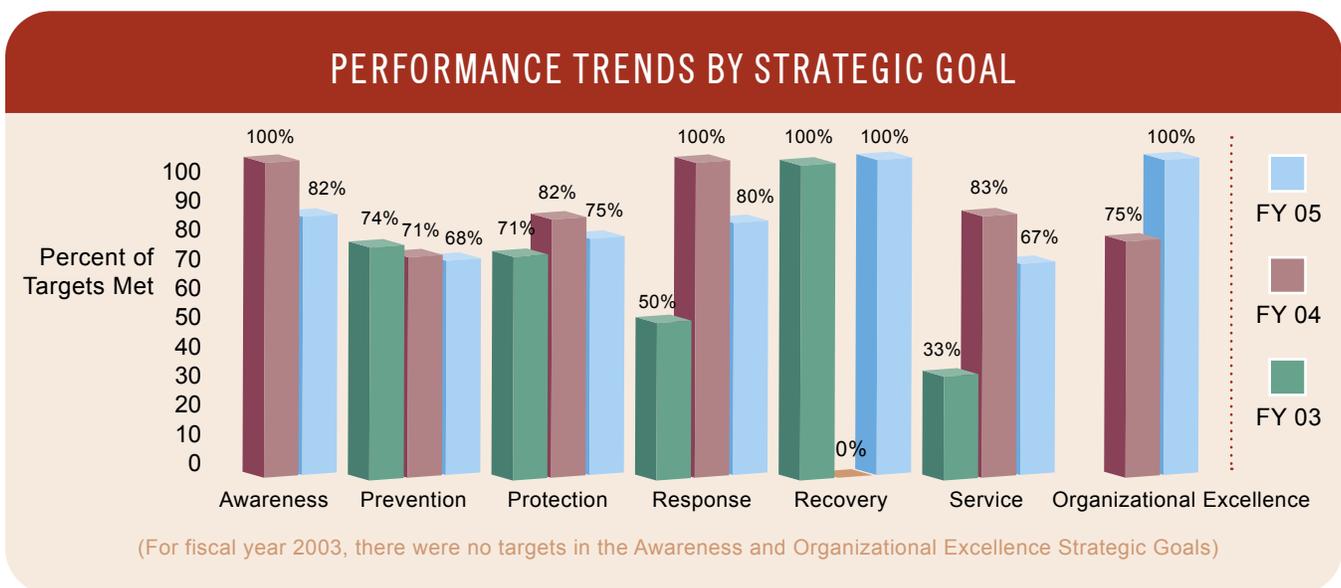
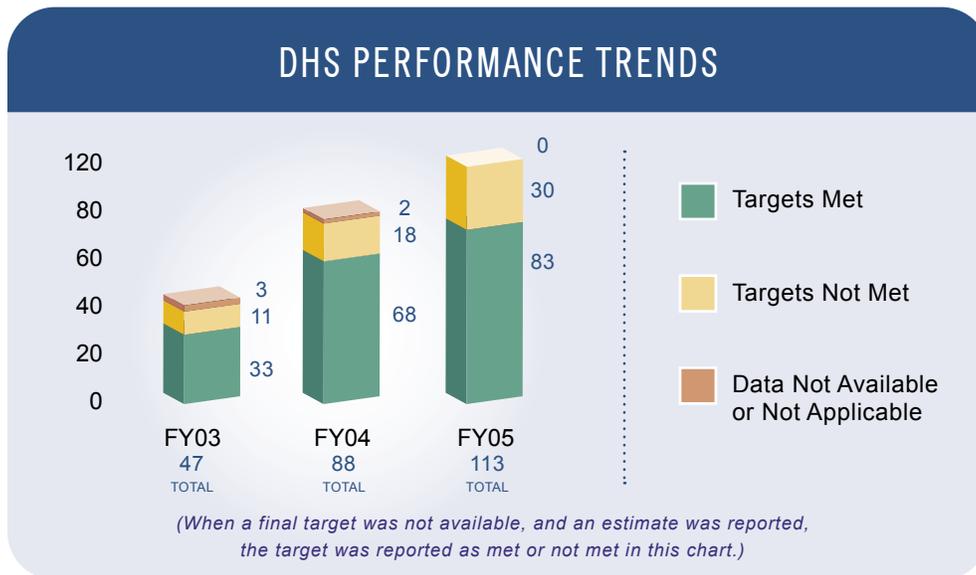
## REAL PROPERTY

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- Real Property continues to be a challenge for the Department. However, we continue to have an accurate and current inventory in place that is provided to the government-wide real property database. Our next critical steps include finalizing our Asset Management Plan and ensuring that we meet future data reporting requirements.

## Performance Highlights

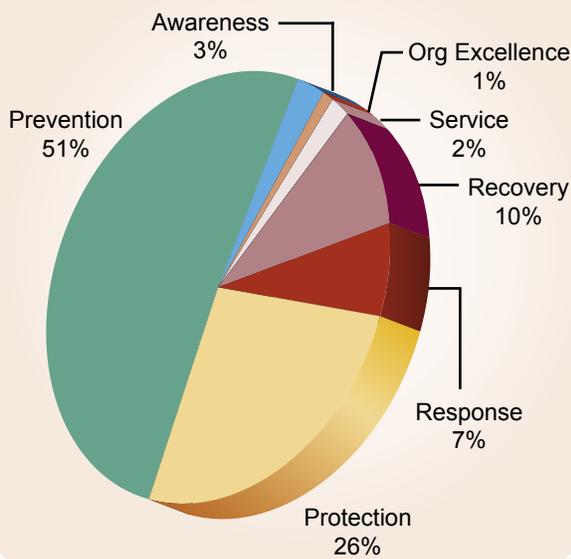
The Department of Homeland Security's seven strategic goals are the framework by which we measure the success of our programs in achieving our mission. We established 113 specific targets under our program goals in fiscal year 2005. Each year we strive to make our targets more aggressive, but this year we met or exceeded 83, or 73 percent, of the established targets. This is a decrease of 4 percent compared to our performance during fiscal year 2004. Reasons for not meeting targets are found in Section II, Performance Information.



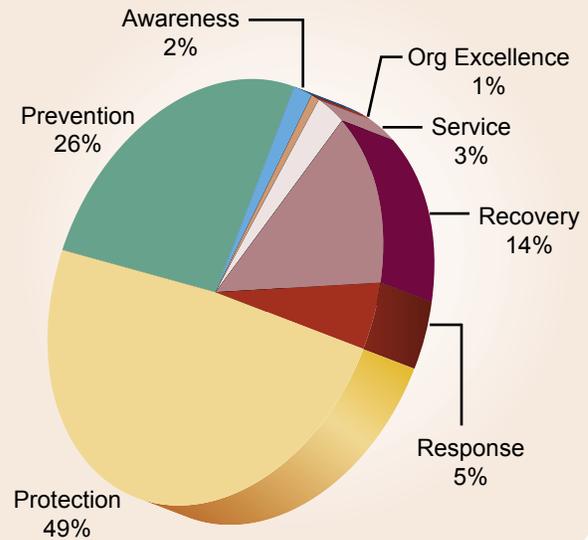
This section lists the Department's seven strategic goals and the high-level performance measures associated with each, along with an assessment of our performance. We also report our performance and cost information by goal. Detailed information about the Department's performance in fiscal year 2005 is provided in Section II, Performance Information. The net costs of achieving performance in fiscal year 2005 by strategic goal are summarized in the following chart. The gross cost less any offsetting revenue for each Strategic Goal is used to arrive at the net cost shown below.

### NET COST BY STRATEGIC GOAL

FY 2004



FY 2005



The total Net Costs equaled \$66,405 million in FY 2005.

## 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.

- Objective 1.1 Gather, fuse, and analyze all terrorism and threat related intelligence.
- Objective 1.2 Identify and assess the vulnerability of critical infrastructure and key assets.
- Objective 1.3 Provide timely, actionable, accurate, and relevant information based on intelligence analysis and vulnerability assessments to homeland security partners, including the public.
- Objective 1.4 Develop a Common Operating Picture for domestic situational awareness, including air, land, and sea.

### HIGHLIGHTS

**I**n fiscal year 2005, the Department's performance highlights in support of Awareness goals and objectives include the following:

- The IAIP Biosurveillance program improved the Federal government's capability to rapidly identify and characterize a potential bioterrorist attack. The program exceeded its target for the year, 40 percent, by having 50 percent of its recommended National Biosurveillance Integration System (NBIS) process improvement actions accepted and implemented into the NBIS operating procedures. Continual monitoring of program performance and incorporation of lessons learned and best practices was part of the overall NBIS program model.
- IAIP's Critical Infrastructure Identification and Evaluation (CIIE) program exceeded its target of 70 percent by reviewing, researching and cataloging 100 percent of the Critical Infrastructure/Key Resource data call responses into the National Asset Data Base (NADB) within 120 days of receipt. The asset information was submitted by states and territories for more than 48,000 assets.
- The Department enhanced Maritime Domain Awareness in 2005 through USCG's implementation of interagency Joint Harbor Operations Centers (JHOC) and Sector Command Center sensory and intelligence fusion capabilities; improving information sharing through the American Waterway Watch national maritime homeland security program; and starting a counterintelligence service.
- The Department improved information sharing efforts among the national laboratories and the commercial and academic institutions working on Threat Awareness Portfolio (TAP) programs, as well as operational data sharing among Federal, state and local law enforcement agencies

through the All-Weapons of Mass Effect assessment, BorderSafe, Enhanced International Travel Security (EITS - international community) and Inter-agency Center for Applied Homeland Security Technology (ICAHST - Interagency collaborations) activities. Installation of pilot TAP technologies at IAIP, CBP and ICE continues providing support to these components' operations.

- The Office of Transportation Security Intelligence Services has evaluated the threat to all modes of transportation for which TSA is responsible, prepared baseline assessments for each mode, and packaged these assessments with threat matrices into the "U.S. Transportation Modal Plans Assessments" which is updated as needed. The "U.S. Transportation Modal Plans Assessments" is used in the development of the National Strategy for Transportation Security (NSTS), the Transportation Security Operations Plan (TSOP), and other TSA operational and strategic planning documents.

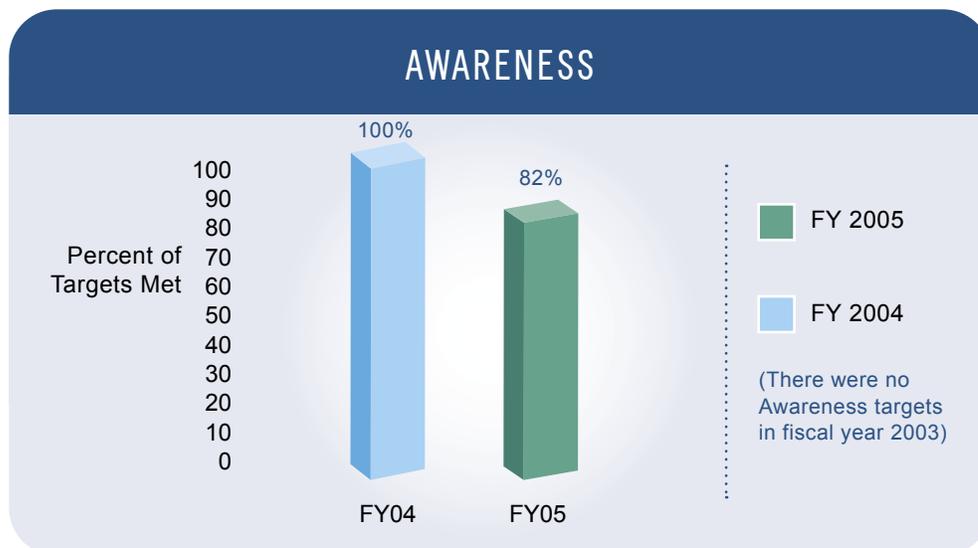
### ★ SUCCESS STORY ★

*The Department, through the US-VISIT program, enhances public awareness by creating a variety of informational materials. Distributed items include: pamphlets; directional and instructional signage at air, sea and land ports; in-flight videos in 15 languages; a public education campaign in major newspapers in Visa Waiver program countries; a flyer and poster distribution program for visitors in Mexico; public education advertising at the Radio Frequency Identification (RFID) test locations within Mexican and Canadian land borders; and active outreach to global media and stakeholder groups.*

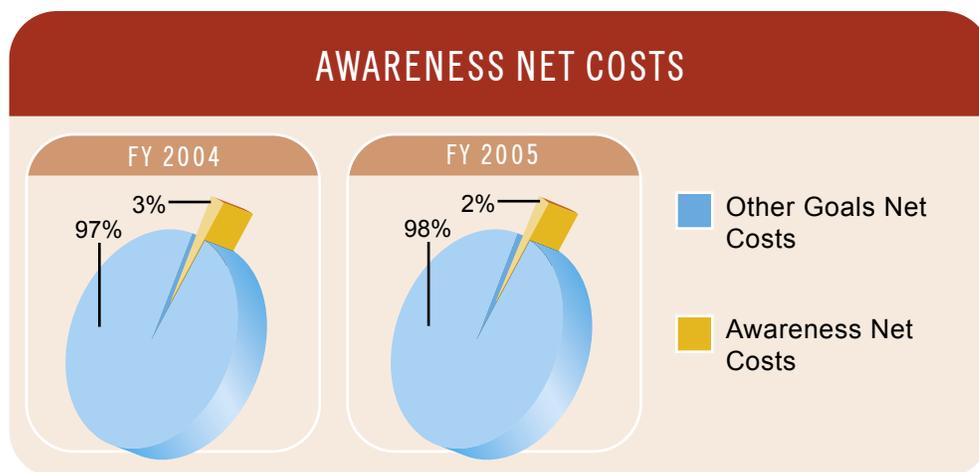


*Note: You can access additional information at the [dhs.gov](http://dhs.gov) website.*

### TRENDS



The Net Costs of this goal in fiscal year 2005 was \$1,321 million, or approximately 2 percent of the total Net Costs of the Department's Directorates.



To assess the achievement of all goals, we used quantitative performance measures with targets. These targets were contained in the performance-based budget submitted to Congress. A summary of our fiscal year 2005 performance against those targets is provided in the following scorecard. We report baselines that were successfully established as Target Met in the charts and tables in this section.

## PERFORMANCE SCORECARD

### Strategic Goal 1 - Awareness

Program	Performance Goal	Percent of Targets Met	Performance Trend from FY 2004	Detail Found on Page
Infrastructure Vulnerability & Risk Assessment	Improve ability to provide focused information on threats to the U.S. homeland that allows Federal, state, local, tribal and private-sector officials to take meaningful protective action.	100%	◀▶	157
Evaluations & Studies	Provide National operational communications and information sharing during domestic incidents; collect and fuse information to deter, detect, and prevent terrorist incidents and maintain and share domestic situational awareness.	100%	◀▶	158
Homeland Security Operations Center	Provide National operational communications and information sharing during domestic incidents; collect and fuse information to deter, detect, and prevent terrorist incidents and maintain and share domestic situational awareness.	0%	▼	158
Threat Determination and Assessment	Support Department of Homeland Security operations and planning functions with timely and actionable intelligence that meets customer requirements.	100%	◀▶	159

## PERFORMANCE SCORECARD

### Strategic Goal 1 - Awareness

Program	Performance Goal	Percent of Targets Met	Performance Trend from FY 2004	Detail Found on Page
Biosurveillance	Function as the lead agency in the development and operation of the National Biosurveillance Integration System (NBIS) to detect biological and chemical attacks and coordinate the real-time integration of biosurveillance data with threat information and recommended responses.	100%	N/A	159
Critical Infrastructure Identification and Evaluation	Identify Critical Infrastructure and Key Resources (CI/KR) and characterize and prioritize these assets based upon the application of appropriate assessment processes and methodologies, using need-specific assessment criteria, sector/segment-specific characterizations, and relevant potential threat information.	100%	N/A	160
Critical Infrastructure Protection	Produce actionable information and recommend reliable technologies to help protect U.S. critical infrastructure.	0%	N/A	161
Domestic Nuclear Detection	Develop an effective suite of countermeasures against radiological and nuclear threats with capabilities in detection and intelligence analysis.	100%	N/A	162
Emerging Threats	Prevent terrorist attacks by developing effective capabilities to characterize, assess, and counter new and emerging threats.	100%	N/A	163
Radiological & Nuclear Countermeasures	Develop an effective suite of countermeasures against radiological and nuclear threats with capabilities in response and preparedness.	100%	N/A	163
Threat and Vulnerability, Testing Assessments	Provide measurable advances in threat discovery and awareness, information management and sharing, linkage of threats with vulnerabilities, and capability and motivation assessments for terrorist organizations required to support Departmental missions to anticipate, detect, deter, and mitigate threats to the United States' homeland security.	100%	N/A	164

\* The Performance Goals in the Scorecard are shown as they were stated in the fiscal year 2005 performance plan, but where the goal has been improved, the new goal is shown. Both the old and new goals are shown in the Performance Information tables in Section II of this report. Some goals have been improved to better reflect intended program outcomes.

## FUTURE STEPS

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

The Department will continue building 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 several years, we will focus on developing 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 implement 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.

- Objective 2.1 Secure our borders against terrorists, means of terrorism, illegal drugs and violations of trade and immigration laws.
- Objective 2.2 Enforce trade and immigration laws.
- 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.
- Objective 2.4 Coordinate national and international policy, law enforcement, and other actions to prevent terrorism.
- Objective 2.5 Strengthen the security of the Nations transportation systems.
- Objective 2.6 Ensure the security and integrity of the immigration system.

### HIGHLIGHTS

In fiscal year 2005, the Department's performance highlights in support of Prevention goals and objectives include the following:

- CBP exceeded its goal for the year for the number of border miles under operational control by 92 percent; 288 miles vs. 150 miles. Operational control, as defined in the National Strategic Plan, is the ability to detect, respond to, and interdict border penetrations in areas deemed as high priority for threat potential or other national security objectives.
- CBP improved the targeting, screening, and apprehension of high-risk international cargo and travelers to prevent terrorist attacks, while providing processes to facilitate the flow of safe and legitimate trade and travel. Its Customs-Trade Partnership Against Terrorism (C-TPAT) program enrolls shippers who agree to follow security procedures to secure the supply chain. This results in reduced exams and thereby helps facilitate the flow of trade.
- TSA's Aviation Regulation and Other Enforcement program uses an intensive, risk-based inspection protocol to ensure that airports remain compliant with all applicable laws and regulations. This inspection methodology has ensured that a high level (96.3percent) of all airports nationwide comply with applicable security regulations. By identifying locations that need additional help, TSA provides needed recommendations or sanctions to assist all applicable airports in their goal to reach 100 percent compliance.
- The Department's US-VISIT program's biometric identifiers – specifically digital finger scans and photographs – helped prevent criminals from entering the country by making it virtually impossible for anyone else to claim another's identity should travel documents be stolen or duplicated.

Since the inception of US-VISIT at many of our land, sea and air ports of entry, the use of biometrics has allowed CBP officers at primary inspection locations to deny entry to more than 800 known criminals and visa violators.

- The Department increased operational control of the Southwestern border through CBP's Arizona Border Control initiative. This initiative is a layered approach consisting of placing additional agents on the ground, using specialized teams and rapid-response capabilities, increasing the use of detection technology, improving infrastructure along border areas, and increasing cooperation with local, state and tribal law enforcement entities, as well as with the Mexican government.
- CBP increased enrollment in its global container security program, the Container Security Initiative (CSI). Through CSI, maritime containers that pose a risk for terrorism are identified and examined at foreign ports before they are shipped to the United States. Currently, there are 40 operational CSI ports representing 24 administrations in Europe, Asia, Africa, the Middle East, and North and South America that have committed to the CSI program – including the 20 ports shipping the greatest volume of containers to the United States. Approximately 75 percent of all maritime containers shipped to the United States are being screened through CSI. The goal is to have 50 operational ports by the end of 2006, which will result in approximately 90 percent of all transatlantic and transpacific cargo imported into the United States being subjected to pre-screening.
- CBP fully implemented the Integrated Automated Fingerprint Identification System (IAFIS), now operational in every Border Patrol station throughout the country. This first year of operation resulted in the identification of more than 133,900 individuals with a criminal history attempting an illegal border crossing. Of this group, more than 500 had records of violent crimes.
- A multi-agency task force investigation based in Florida resulted in the seizure of more than five tons of cocaine and the detention of six individuals aboard a fishing vessel in the Eastern Pacific. The size of this seizure is significant for a single vessel and highlights the continuing attempts by organizations to use maritime routes to bring illegal substances to the United States. The task force included the U.S. Attorney for the Middle District of Florida, the USCG, ICE, the Drug Enforcement Administration (DEA), the Federal Bureau of Investigation (FBI), the Joint Interagency Task Force-South (JIATF-South), the Internal Revenue Service's Criminal Investigative Division, the Florida Department of Law Enforcement, and the Sheriff's Offices of Pinellas and Sarasota counties.
- Members of FLETC's Counterterrorism Division completed the first training courses for Amtrak police. Senior members of Amtrak received the 40-hour Land Transportation Antiterrorism Training Program, sponsored by TSA. These members included the passenger railroad's police, captains, inspectors, and other personnel. Topics included terrorism, bombs and explosives, weapons of mass destruction, special events security, and case studies. The case studies covered suicide attacks, the Madrid bombing, the Chicago cyanide incident, and current events.
- Department of Homeland Security officials on September 29th unveiled the Predator B – Unmanned Aerial Vehicle (UAV) at Ft. Huachuca/Muni-Libby Army Airfield in Arizona. The unmanned aerial system supplements pre-existing intrusion detection and intelligence-gathering devices as well as provides an additional force multiplier within a particular portion of the border. This historic event took place at the home of the largest UAV training facility in the world, where

previous UAV platforms were tested by CBP.

- 90 percent of Federal supervisors rated their FLETC basic training graduate's preparedness as good or excellent. This rate is 17 percent higher than the target for fiscal year 2005, highlighting the quality of instruction at FLETC.

## ★ SUCCESS STORY ★

*ICE is looking to put money launderers, illegal money services, and others engaged in financial fraud out of business through the use of Suspicious Activity Report (SAR) review teams. ICE agents use the information contained in the SAR to determine if the activity reported rises to a level that warrants further investigation. Disclosure of the subject or existence of a SAR to unauthorized individuals is strictly prohibited. Despite limitations, the SAR continues to be a valuable tool in combating money laundering, terrorist financing, and other serious financial crimes. ICE's SAR reviews identified and led to the successful investigation of the following cases:*

- *A California man defrauded a bank of hundreds of thousands of dollars by obtaining stolen checks and depositing them into his own account under a fictitious name. This investigation showed that the man was attempting to further defraud the bank of more than \$1 million. The defendant was ordered to make restitution to the bank as part of his sentence. Continues on next page*
- *An Atlanta-area business was targeted for investigation by ICE agents for failing to register with the Financial Crimes Enforcement Network (FinCEN) as a money service business. Investigation showed that the owner of this business deposited in excess of \$1 million into a bank account, which was subsequently wired abroad to several financial institutions. As a result, agents seized more than \$100,000 in currency and property from the violator.*
- *A bank employee was discovered to be involved in Bank Secrecy Act violations based on SAR information filed by a National Capitol Region financial institution. In addition, the funds used as part of the scheme were discovered to have been smuggled from Central America into the United States to avoid currency reporting requirements. The defendant pled guilty to structuring cash deposits and was ordered by the judge to forfeit the currency involved in the scheme.*

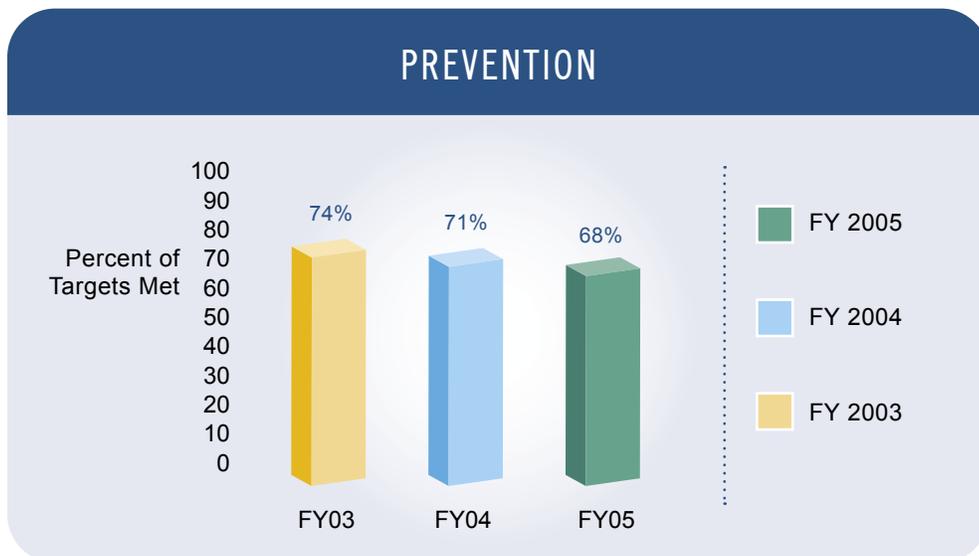


- The total number of recreational boating deaths combined with passenger and maritime worker fatalities and injuries was 1,262. This number is far below our projections for fiscal year 2005. The total number is a combination of the five-year average of passenger and maritime worker fatalities and injuries (572) with the projected annual number of recreational boating deaths (690). This result shows the effectiveness of the USCG's commercial vessel safety and recreational boating safety programs. Of note was the creation of a joint port state control regime for the Great Lakes by the United States and Canada, as well as implementation of the Safety Manage-

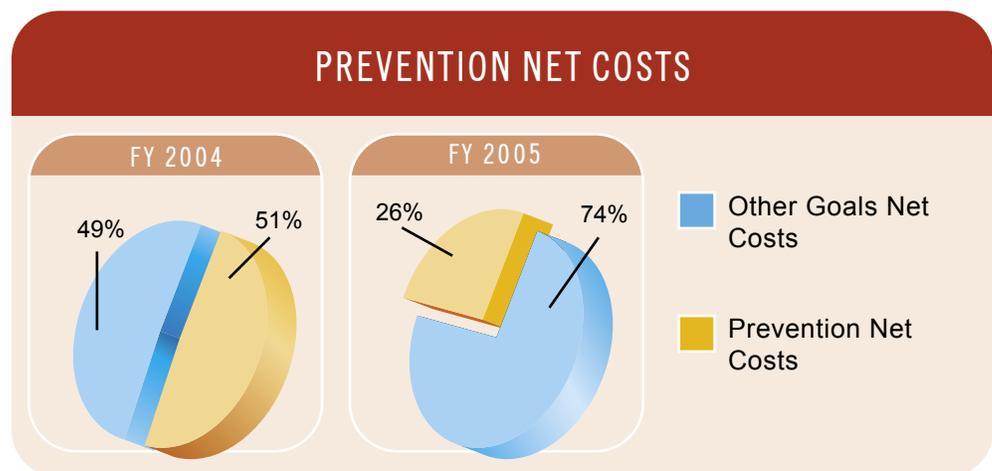
ment System regulatory strategy, which focuses on ensuring that corporate and crew procedures are followed.

- Prior to the September 11th terrorist attacks, the Federal government maintained a list of less than 20 people who were considered a threat to aviation security. Today, that number is over 73,000. TSA has enhanced the Watch List coordination and dissemination process allowing greater sharing of intelligence and law enforcement data. TSA has consolidated watch list operations within the Terrorist Screening Center (TSC) and aligned them with the TSC's Terrorist Screening Database. This effort has greatly increased the quality of the intelligence data contained in the lists and improved the U.S. government's ability to share information regarding personalities who present a threat to national and aviation security.

## TRENDS



The Net Costs of this goal in fiscal year 2005 was \$17,262 million, or approximately 26 percent of the total Net Costs of the Department's Directorates.



To assess the achievement of all goals, we used quantitative performance measures with targets. These targets were contained in the performance-based budget submitted to Congress. A summary of our fiscal year 2005 performance against those targets is provided in the following scorecard. We report baselines that were successfully established as Target Met in the charts and tables in this section.

## PERFORMANCE SCORECARD

### Strategic Goal 2 - Prevention

Program	Performance Goal	Percent of Targets Met	Performance Trend from FY 2004	Detail Found on Page
Office of the Under Secretary, Border and Transportation Security	To maintain the security of our air, land, and sea borders and transportation systems by providing oversight and coordination of Customs and Border Protection, Immigration and Customs Enforcement, the Transportation Security Administration, the Federal Law Enforcement Training Center, the Office of International Enforcement, and the Screening Coordination and Operations Office.	0%	N/A	166
Automation Modernization	Improve the ability of threat, enforcement, travel, and trade information to end users to help ensure lawful, secure, and efficient travel and trade into and out of the United States.	100%	▲	167 - 168
Air & Marine Operations	Deny the use of air, land and coastal waters for conducting acts of terrorism and other illegal activities against the United States.	100%	▲	169
Border Security and Control between Ports of Entry	Prevent potential terrorists, means of terrorism, or other unlawful activities from entering the United States by securing and maintaining control of our borders between the ports of entry.	100%	◀▶	169
Border Security Inspections and Trade Facilitation at Ports of Entry	Improve the targeting, screening, and apprehension of high-risk international cargo and travelers to prevent terrorist attacks, while providing processes to facilitate the flow of safe and legitimate trade and travel.	43%	▼	170 - 181
Accreditation	Provide the process based on established law enforcement standards by which law enforcement training programs and facilities are accredited and law enforcement instructors are certified.	50%	◀▶	182
Construction and Improvement	Provide law enforcement agents and officers with the knowledge and skills to fulfill their responsibilities in a safe manner and at the highest level of proficiency.	100%	◀▶	183
Federal Law Enforcement Training	Provide law enforcement agents and officers with the knowledge and skills to fulfill their responsibilities in a safe manner and at the highest level of proficiency.	100%	◀▶	184
International Law Enforcement Training	Provide law enforcement agents and officers with the knowledge and skills to fulfill their responsibilities in a safe manner and at the highest level of proficiency.	100%	◀▶	185
State and Local Law Enforcement Training	Provide law enforcement agents and officers with the knowledge and skills to fulfill their responsibilities in a safe manner and at the highest level of proficiency.	100%	◀▶	186
Cyber Security	Enable the creation of and migration to a more secure critical information infrastructure.	100%	N/A	187

## PERFORMANCE SCORECARD

### Strategic Goal 2 - Prevention

Program	Performance Goal	Percent of Targets Met	Performance Trend from FY 2004	Detail Found on Page
Explosives Countermeasures	Improve explosives countermeasures technologies and procedures to prevent attacks on critical infrastructure, key assets, and the public.	100%	N/A	188
Rapid Prototyping	Identify and rapidly develop, prototype, and commercialize innovative technologies to thwart terrorist attacks.	100%	N/A	188
Standards	Develop well-designed standards and test and evaluation protocols for products, services, and systems used by the Department of Homeland Security and its partners to ensure consistent and verifiable effectiveness. Improve the standardization of products and services designed to prevent and respond to terrorist attacks or natural disasters.	100%	N/A	189
Support to Department of Homeland Security Components	Develop effective technologies and tools to increase the capabilities of the Department of Homeland Security operational components to execute their mission to secure the Homeland.	100%	N/A	190
Air Cargo	Reduce the probability of a successful terrorist or other criminal attack to the air transportation system by improved passenger and baggage screening processes.	100%	◀ ▶	191
Compliance and Enforcement	Reduce the probability of a successful terrorist or other criminal attack to the air transportation system by improved passenger and baggage screening processes.	100%	◀ ▶	192
Screening Technology	Reduce the probability of a successful terrorist or other criminal attack to the air transportation system by improved passenger and baggage screening processes.	0%	▼	193
Screener Workforce	Reduce the probability of a successful terrorist or other criminal attack to the air transportation system by improved passenger and baggage screening processes.	100%	◀ ▶	194
Federal Air Marshal Service	To promote confidence in our nation's civil aviation system through the effective deployment of Federal Air Marshals to detect, deter, and defeat hostile acts targeting U.S. air carriers, airports, passengers, and crews.	100%	◀ ▶	195
Screener Support	Reduce the probability of a successful terrorist or other criminal attack to the air transportation system by improved passenger and baggage screening processes.	100%	◀ ▶	196

## PERFORMANCE SCORECARD

### Strategic Goal 2 - Prevention

Program	Performance Goal	Percent of Targets Met	Performance Trend from FY 2004	Detail Found on Page
Surface Transportation Security	Reduce effects (psychological, economic, health) of terrorist activities (before, during, after) on surface transportation systems and on the flow of commerce impacted by transportation systems.	100%	◀ ▶	197
Defense Readiness	Support our national security and military strategies by ensuring assets are at the level of readiness required by the combatant commander.	0%	◀ ▶	198
Drug Interdiction	Reduce the flow of illegal drugs entering the U.S. via non-commercial maritime shipping sources.	100%	◀ ▶	199
Marine Safety	Eliminate maritime fatalities and injuries on our Nation's oceans and waterways.	100%	◀ ▶	200
Migrant Interdiction	Eliminate the flow of undocumented migrants via routes to the U.S.	0%	▼	201
Other LE (law enforcement)	Reduce the numbers of vessel incursions into the United States Exclusive Economic Zone (EEZ).	100%	▲	202
Detention and Removal	The Office of Detention and Removal Operations will remove all removable aliens.	0%	▼	203
Office of Investigations	Prevent the exploitation of systemic vulnerabilities in trade and immigration that allow foreign terrorists, other criminals, and their organizations to endanger the American people, property, and infrastructure.	100%	▲	204

\* The Performance Goals in the Scorecard are shown as they were stated in the fiscal year 2005 performance plan, but where the goal has been improved, the new goal is shown. Both the old and new goals are shown in the Performance Information tables in Section II of this report. Some goals have been improved to better reflect intended program outcomes.

## FUTURE STEPS

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**T**he Department's main 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 continue to 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 enhance real-time monitoring and surveillance of the border, including seaports, landports, airports, 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.

## 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.

- Objective 3.1 Protect the public from acts of terrorism and other illegal activities.
- Objective 3.2 Reduce infrastructure vulnerability from acts of terrorism.
- Objective 3.3 Protect our Nation's financial infrastructure against crimes, to include currency and financial payment systems.
- Objective 3.4 Secure the physical safety of the President, Vice President, visiting world leaders and other protectees.
- Objective 3.5 Ensure the continuity of government operations and essential functions in the event of crisis or disaster.
- Objective 3.6 Protect the marine environment and living marine resources.
- Objective 3.7 Strengthen nationwide preparedness and mitigation against acts of terrorism, natural disasters, or other emergencies.

### HIGHLIGHTS

In fiscal year 2005, the Department's performance highlights in support of Protection goals and objectives include the following:

- SLGCP's State Preparedness Grants program increased the capability of states and territories to prevent, protect, respond, and recover from all-hazard events. The 40 percent of jurisdictions demonstrating acceptable performance on applicable critical tasks in exercises using State SLGCP approved scenarios exceeded the target of 23 percent. This improvement in jurisdictions' performance on critical tasks over time reflects the impact of SLGCP preparedness activities (including activities supported by the State Preparedness Grants Program) on jurisdictions' overall preparedness levels.
- 487,414 state and local homeland security preparedness professionals were trained in fiscal year 2005, 39 percent above the SLGCP State and Local Training Program target for the year. This demonstrates the significant breadth of the State and Local Training Program in training hundreds of thousands of homeland security professionals to improve their capabilities, thus increasing the nation's overall preparedness.
- Campaign 2004 protective activities concluded in November 2004. Throughout the campaign, the Secret Service provided security advances to presidential candidates and their immediate families.

- The 2005 Presidential Inauguration was a National Special Security Event (NSSE) held in Washington, D.C., on January 20, 2005. The Inaugural security plan involved the coordination of 15 Federal agencies and 22 state and local police and emergency service resources, including the Washington, D.C., Metropolitan Police Department. The Department's TSA, FEMA, IAIP and National Capital Region also assisted the Secret Service. The Secret Service used a variety of non-traditional and traditional security measures, including counter surveillance of venues, controlled access to the parade route and event sites, and magnetometer screening of more than 297,000 people attending these events.

## ★ SUCCESS STORY ★

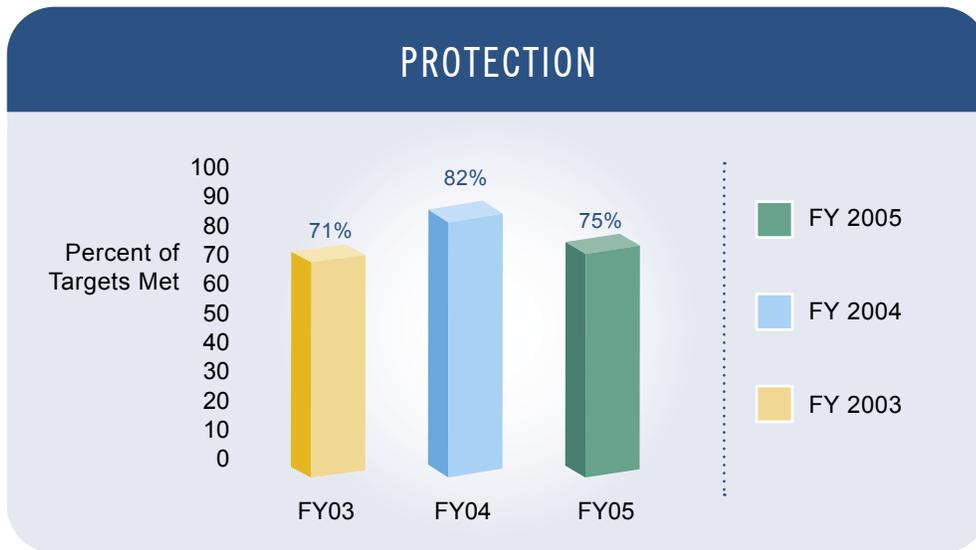


*The Secret Service expanded its Electronic Crimes Special Agent Program (ECSAP), which allows agents to respond to the ever-increasing scope of electronic crimes investigations. It also developed a system to provide financial partners with a report-based strategic analysis of financial fraud data as provided by multiple industry partners. These developments contributed to protecting the public against electronic and financial crimes by preventing \$556 million in losses.*

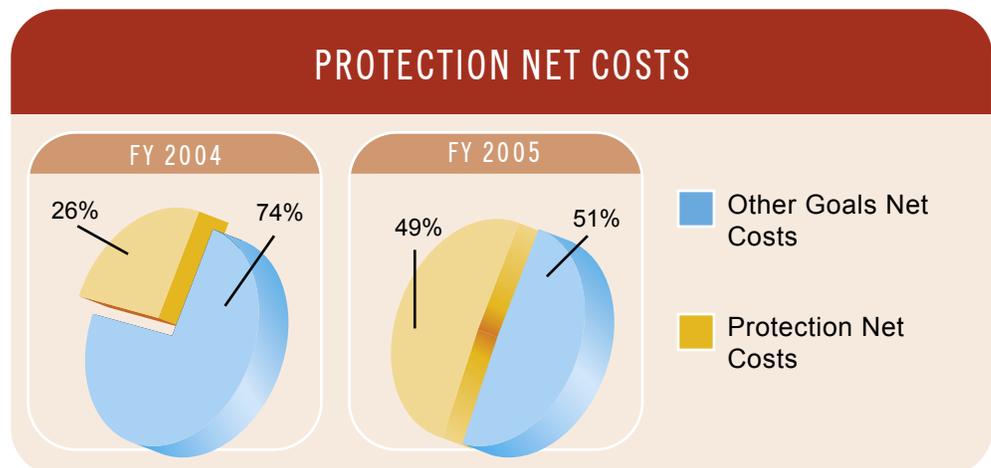
- As part of the Presidential election threat disruption effort, ICE agents completed more than 900 intelligence-based investigations, and made 237 arrests, between October and November 2004, targeting immigration status violators in the United States who posed potential national security risks or criminal threats.
- ICE arrested 21 fugitive aliens following an 11-day operation that targeted criminal aliens in Wisconsin who were hiding to avoid deportation orders issued by Federal judges. 6 of those arrested were felons with prior convictions that range from drug dealing to bank fraud, battery, and robbery. An additional 4 had criminal histories ranging from assault to criminal damage of property.
- The “No Safe Haven” initiative made great strides at bringing human rights abusers to justice in the United States. In fiscal year 2005, ICE arrested 16 human rights violators, and 135 criminal investigations are pending. This initiative seeks to deny refuge in the United States to international human rights violators by identifying, investigating, prosecuting and removing them from the country and by preventing violators from entering the country.
- The USCG met its goal of lowering maritime security risk. This outcome resulted from: complete verification of security plans for U.S. port facilities and vessels operating in U.S. waters, achievement of “interim operating capability” for 5 new maritime safety and security teams, completion of 31 foreign port security assessments, and development of explosive detection and anti-small vessel capabilities.
- Completed the third full-scale exercise in the Department's Top Officials series, known as TOPOFF 3, which was the largest and most comprehensive terrorism-response exercise ever conducted, involving more than 10,000 participants from more than 275 government and private-sector organizations. It was also the first time a European country was involved. The drills, which ran from April 4 to 8, allowed first responders in New Jersey, Connecticut, Canada and

the United Kingdom to test how prepared they are to face terrorist attacks involving weapons of mass destruction. TOPOFF 3 was the first simulation to follow the new National Response Plan and use National Incident Management System protocols. The exercise was carefully analyzed to obtain lessons learned.

## TRENDS



The Net Costs of this goal in fiscal year 2005 was \$32,459 million, or approximately 49 percent of the total Net Costs of the Department's Directorates.



To assess the achievement of all goals, we used quantitative performance measures with targets. These targets were contained in the performance-based budget submitted to Congress. A summary of our fiscal year 2005 performance against those targets is provided in the following scorecard. We report baselines that were successfully established as Target Met in the charts and tables in this section.

## PERFORMANCE SCORECARD

### Strategic Goal 3 - Protection

Program	Performance Goal	Percent of Targets Met	Performance Trend from FY 2004	Detail Found on Page
Mitigation	Reduce the impact of natural hazards on people and property through the analysis and reduction of risks and the provision of flood insurance.	0%	▼	206
National Security	All Federal departments and agencies will have fully operational Continuity of Operations (COOP) and Continuity of Government (COG) capabilities.	0%	◀▶	207
Preparedness	Assess Federal and State implementation of the National Incident Management System (NIMS), train the Nation's Disaster and emergency personnel, and reduce loss of life from fire in the United States.	0%	◀▶	208
Critical Infrastructure Outreach & Partnerships	Build strategic partnerships between Department of Homeland Security (DHS)/Information Analysis Infrastructure Protection (IAIP) and critical infrastructure owners & operators to support two-way information sharing.	100%	N/A	209
Cyber Security	Prevent, detect, and respond to Cyber Security Events.	100%	N/A	210
Evaluation and National Assessment Program	Improve our process and procedures by implementing recommendations of reviewing authorities (i.e. IG, OMB, GAO).	100%	◀▶	211
Fire Act Program	The health and safety of the public and firefighting personnel against fire and fire-related hazards are minimized by providing direct assistance, on a competitive basis, to fire departments of a state or tribal nation.	67%	▼	212 - 214
National Exercise Program	Improve the capability of the Nation's first responders to prevent, respond to, and recover from acts of terrorism by periodically exercising together, thereby enhancing the Nation's preparedness.	50%	◀▶	215 - 216
National Infrastructure Simulation and Analysis Center	Provide comprehensive infrastructure-related modeling, simulation and analytic capabilities to support protective action planning and implementation decision processes.	100%	NA	217
National Security/Emergency Preparedness Telecommunications	By fiscal year 2011 reach 95% for Government Emergency Telecommunications Service (GETS) call completion rate during periods of network congestion.	100%	◀▶	218

## PERFORMANCE SCORECARD

### Strategic Goal 3 - Protection

Program	Performance Goal	Percent of Targets Met	Performance Trend from FY 2004	Detail Found on Page
Protective Actions	Build sustainable protective capacity by developing and facilitating the implementation of protection strategies, security best practices and protective programs that reduce the risk from current and emerging threats, based on sector/segment-specific vulnerabilities of Critical Infrastructure/Key Resources (CI/KR).	100%	N/A	219
State Preparedness Grants Program	Enhance the capability of states and territories to prevent, protect, respond and recover from all-hazard events through the provision of grants.	50%	◀ ▶	220 - 221
State and Local Training	Improve the ability of first responders to prevent, protect against, respond to, and recover from acts of weapons of mass destruction (WMD) terrorism and other disasters by administering a comprehensive training program tailored to responder communities.	100%	◀ ▶	222 - 223
Urban Areas Security Initiative	Through the award of grant funds, improve the protection of our Nation's critical transportation systems, high-risk urban areas, and critical infrastructure from terrorism, especially explosives and non-conventional threats, that would cause major disruption to commerce and significant loss of life.	50%	◀ ▶	224 - 225
Technical Assistance	Enhance state and local jurisdiction preparedness strategies related to chemical, biological, radiological, nuclear, and explosives (CBRNE) terrorism, as well as other hazards such as hurricanes and floods, through the provision of information resources, stand-alone tools, and customized on-site assistance.	100%	◀ ▶	226
Biological Countermeasures	Provide dependable risk analyses, effective systems for surveillance and detection, and reliable bioforensic analysis to protect the Nation against biological attacks.	100%	N/A	227
Counter Man-Portable Air Defense System	Provide effective and economical capabilities to dramatically reduce the threat to commercial aircraft posed by man-portable anti-aircraft missiles.	100%	N/A	228
SAFETY Act	Encourage the development and deployment of anti-terrorism technologies by awarding SAFETY Act benefits to homeland security technology producers.	100%	N/A	229
University Programs	Engage a broad network of universities to provide high quality research to develop the science and intellectual capacity needed to support the Department of Homeland Security's mission of confronting terrorism and responding to natural disasters and educational programs to increase the number of U.S. students in academic fields related to homeland security.	100%	N/A	230

## PERFORMANCE SCORECARD

### Strategic Goal 3 - Protection

Program	Performance Goal	Percent of Targets Met	Performance Trend from FY 2004	Detail Found on Page
Living Marine Resources	Achieve sustained fisheries regulation compliance on our nation's Oceans.	0%	◀▶	231
Ports Waterways and Coastal Security	Reduce homeland security risk in the maritime domain.	100%	▲	232
Protection of Federal Assets-Federal Protective Service	Provide law enforcement, criminal investigations, and physical security protection to reduce and respond to potential threats and vulnerabilities to Federal properties thereby providing a safe, secure environment to Federal tenants and the visiting public in a cost-effective manner.	100%	◀▶	233
Campaign Protection	Protect our presidential and vice presidential candidates and nominees.	100%	◀▶	234
Domestic Protectees	Protect the Nation's leaders and other protectees.	100%	◀▶	234
Financial Investigations	Reduce losses to the public attributable to counterfeit currency, other financial crimes, and identity theft crimes that are under the jurisdiction of the Secret Service, which threaten the integrity of our currency and the reliability of financial payment systems worldwide.	50%	▼	235
Foreign Protectees and Foreign Missions	Protect visiting world leaders.	100%	◀▶	236
Infrastructure Investigations	Reduce losses to the public attributable to electronic crimes and crimes under the jurisdiction of the Secret Service that threaten the integrity and reliability of the critical infrastructure of the country.	100%	◀▶	236
Protective Intelligence	Reduce threats posed by global terrorists and other adversaries.	100%	◀▶	237

\* The Performance Goals in the Scorecard are shown as they were stated in the fiscal year 2005 performance plan, but where the goal has been improved, the new goal is shown. Both the old and new goals are shown in the Performance Information tables in Section II of this report. Some goals have been improved to better reflect intended program outcomes.

## FUTURE STEPS

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**T**he 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 assist 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 produces documents of high integrity, while thwarting forgeries and fabrications. The Department will also enhance and maintain a nationwide 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 a 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 implement a national continuance of government and operations program that will allow every department to continue, should an emergency occur, including off-site data storage and analysis redundancies.

The Department's work in improving our ability to detect and prevent chemical, biological, radiological and nuclear threats to the nation will reduce our vulnerability. We are establishing national priorities in the development of technologies to recognize, identify and confirm the occurrence of a terrorist attack and thereby 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 nationwide exercise program to maintain high preparedness standards for jurisdictions. Finally, the Department will implement a nationwide training program for first responders that will include basic chemical, biological, radiological and nuclear response capabilities.

## Strategic Goal 4 ★ Response

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

Objective 4.1 Reduce the loss of life and property by strengthening response readiness.

Objective 4.2 Provide scalable and robust all-hazard response capability.

Objective 4.3 Provide search and rescue services to people and property in distress.

### HIGHLIGHTS

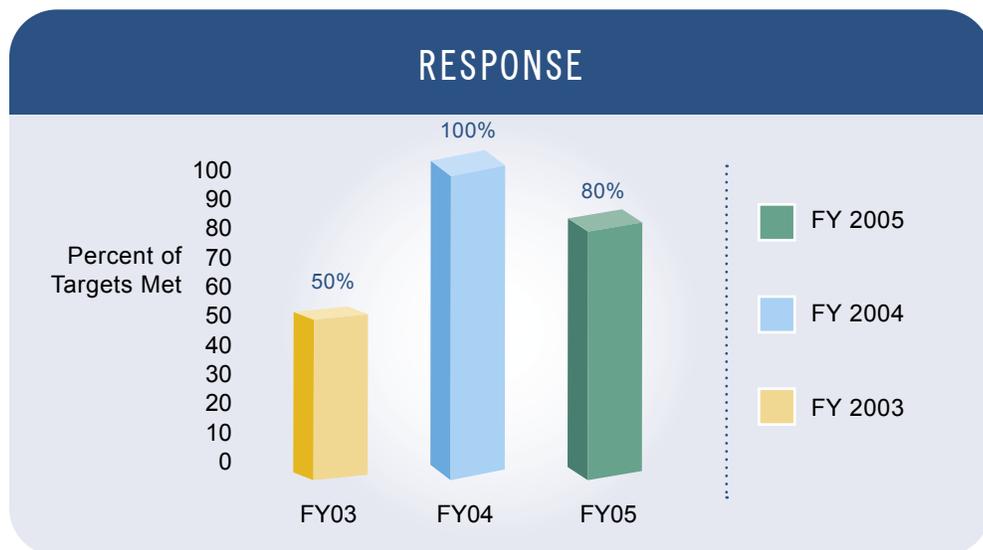
In fiscal year 2005, the Department's performance highlights in support of Response goals and objectives include the following:

- S&T's Chemical Countermeasures program met its target to develop a prototype mobile laboratory capable of on-site, high throughput analysis of Toxic Industrial Chemicals (TIC) and Chemical Warfare Agents (CWA). Additionally, the program initiated an evaluation of the risks, vulnerabilities, and consequences due to attacks using the TIC cyanide.
- Hurricane Katrina was one of the largest search-and-rescue operations in U.S. history. The USCG used air and boat crews to rescue more than 24,100 people and assisted with the joint-agency evacuation of an additional 9,400 patients and medical personnel from hospitals in the Gulf Coast region. More than 33,500 lives have been saved and evacuated to date:
  - 12,535 lives saved by air resources.
  - 11,600 lives saved by surface resources.
  - 9,409 patients evacuated from hospitals.

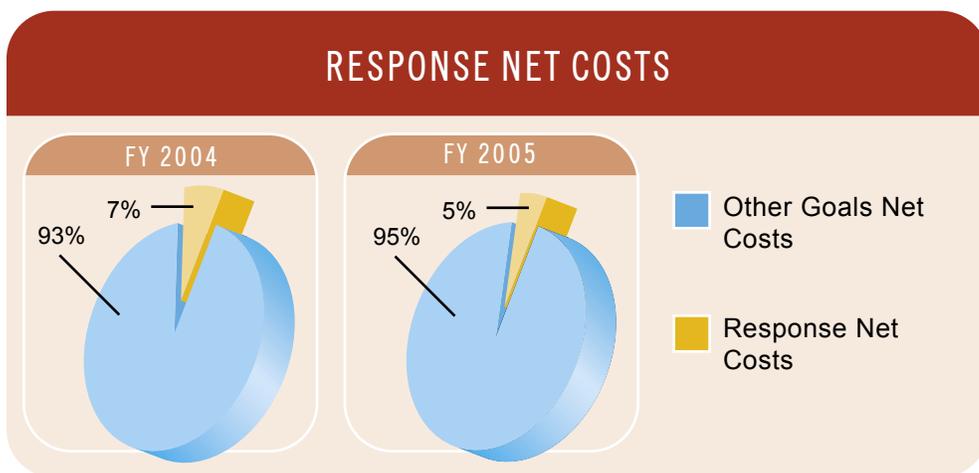
In addition, the USCG saved 138 lives before and after Hurricane Rita.

- In response to Hurricane Katrina, more than 600 TSA employees were flown to Louis Armstrong New Orleans International Airport to help evacuate 23,500 people, many of whom were ill.
- At the close of fiscal year 2005, the USCG met its aggressive goal of limiting the five year-average number of spills to 18.4 per one hundred million short tons shipped. Key to attaining this performance was the USCG's use of the National Interagency Incident Command System (ICS) model in the United States' National Response Plan. ICS provides a unified framework to tie together the efforts of maritime industries, and local, state and Federal officials in responding to catastrophic environmental threats.

## TRENDS

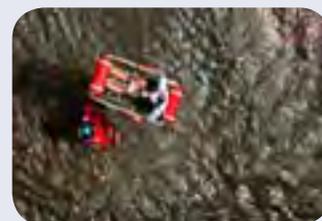


The Net Costs of this goal in fiscal year 2005 was \$3,453 million, or approximately 5 percent of the total Net Costs of the Department's Directorates.



## ★ SUCCESS STORY ★

*LOUISIANA - Coast Guard Petty Officer 2nd Class Scott D. Rady of Airstation Clearwater, Florida, gives the signal to hoist an expectant mother from her apartment building following Hurricane Katrina. In all, the Coast Guard rescued 24,135 victims from this particular storm, including more than 12,000 survivors by helicopter.*



To assess the achievement of all goals, we used quantitative performance measures with targets. These targets were contained in the performance-based budget submitted to Congress. A summary of our fiscal year 2005 performance against those targets is provided in the following scorecard. We report baselines that were successfully established as Target Met in the charts and tables in this section.

PERFORMANCE SCORECARD				
Strategic Goal 4 - Response				
Program	Performance Goal	Percent of Targets Met	Performance Trend from FY 2004	Detail Found on Page
Response	Consistently achieve fully operational status for all multi-disciplinary response teams, and meet established average response times.	100%	◀ ▶	239
Chemical Counter-measures	Provide dependable risk analyses, effective systems for surveillance, detection, and restoration, and reliable laboratory analytical analyses to protect the Nation against attacks involving chemical agents.	100%	N/A	240
Interoperability & Compatibility	Ensure interoperability and compatibility between emergency response agencies at the local, state and Federal levels and standardize Federal testing and evaluation efforts for emergency response technologies.	0%	N/A	241
Marine Environmental Protection	Eliminate oil spills and chemical discharge incidents.	100%	◀ ▶	242
Search and Rescue	Save mariners in imminent danger on our Nation's oceans and waterways.	0%	▼	243

\* The Performance Goals in the Scorecard are shown as they were stated in the fiscal year 2005 performance plan, but where the goal has been improved, the new goal is shown. Both the old and new goals are shown in the Performance Information tables in Section II of this report. Some goals have been improved to better reflect intended program outcomes.

## FUTURE STEPS

In the span of one month, nature dealt two very significant blows to the Gulf Coast. As a result of Hurricanes Katrina and Rita, many have lost loved ones and millions have seen their lives uprooted and their livelihoods destroyed.

In particular, Hurricane Katrina will go down as one of the worst natural disasters in our nation's history. As a result of this storm, more than 1.5 million people evacuated the Gulf Coast, nearly 250,000 homes have been damaged or destroyed, and over 1,200 lives have been lost. An estimated 600,000 people have required sheltering, compared to 180,000 people for the four hurricanes that struck Florida in 2004.

While the federal response to Hurricane Katrina was unprecedented, it was certainly not without flaws. The shared goal must be to replicate the things that went well – and to eliminate the things that did not. This tragedy has emphasized how critical it is that planning and response capabilities perform with seamless integrity and efficiency in any type of disaster situation – even one of cataclysmic nature. Furthermore, it emphasized the importance of having accurate, timely and reliable information about true conditions on the ground, the lack of which frustrated the best efforts to coordinate the response with federal, state and local officials.

With Hurricane Rita, the federal response effort functioned much more efficiently – admittedly in a less extreme environment. Just two weeks out from Hurricane Katrina, improvements in communication and coordination between levels of government were already evident. But that is only one step in ensuring the Department identifies the lessons learned from Hurricane Katrina and makes the necessary adjustments.

Some of the very first images on television after Hurricane Katrina were of USCG helicopters rescuing stranded citizens on rooftops and in rising floodwaters. These brave men and women performed selfless acts of courage, contending with high winds, flying debris and downed power lines. In all, the USCG rescued more than 33,500 people in its response to Hurricane Katrina – six times the number of people it rescued in all of 2004. At its peak, USCG assets supporting the Hurricane Katrina response totaled 65 aircraft, approximately 30 cutters, approximately 100 boats, and nearly 5,000 personnel.

In addition, TSA helped organize “Operation Air Care,” the largest domestic civilian airlift ever in our nation’s history. More than 23,000 stranded evacuees were lifted to safety from the New Orleans Airport. These efforts were also supported by the Federal Air Marshal Service, the Department of Transportation, the Air Transport Association, and some of our nation’s largest air carriers.

By October, FEMA had provided almost \$2.9 billion in vital disaster aid to more than 1.6 million affected households. That is in addition to millions of dollars in generous donations from other organizations and the American people.

CBP and ICE also provided a combined 1,300 law enforcement officers to New Orleans to help maintain order and protect critical assets until additional National Guard troops could be mobilized. And the Secret Service provided strategic aid and support at critical locations, including the Superdome in New Orleans and the Astrodome in Houston.

But there are many things that did not work well with the response. As the Department completes after action reviews, more comprehensive improvements in catastrophic preparedness and response capabilities will be made.

Through this review process, the Department will continue to gather facts and information, but the reality is the Department will not wait for the review’s completion to adapt and improve.

There are three areas the Department must address immediately to begin the process of strengthening the system. These are:

- Improve FEMA's overall capacity to enhance this vital agency's capabilities so that it can fulfill its historic and critical mission supporting response and recovery.
- Enhance communications and information sharing capabilities. In any disaster, situational awareness requires real time access to accurate, first-hand information.
- Fundamentally strengthen and elevate the role of preparedness to ensure that preparedness efforts have focused direction.

Improving the nation's ability to respond to disasters, man-made or natural, is a top priority for the Department. 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.

During the next five years, the Department will continue strengthening a National Incident Management System (NIMS) 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 departmental entities. The Department will implement an interoperable, safe and reliable communications system to ensure an effective response to crisis. Additionally, 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-hazard 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 deliver emergency housing to large displaced populations following major disasters. We will provide a Federal medical response capability that supplements state and local disaster response by: enhancing National Disaster Medical System team readiness and capability, reducing the average team response time, and increasing the percentage of fully operational Disaster Medical Assistance teams. The Department will coordinate an effective response when state, local and tribal resources are overwhelmed.

## 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.

Objective 5.1 Strengthen nationwide recovery plans and capabilities.

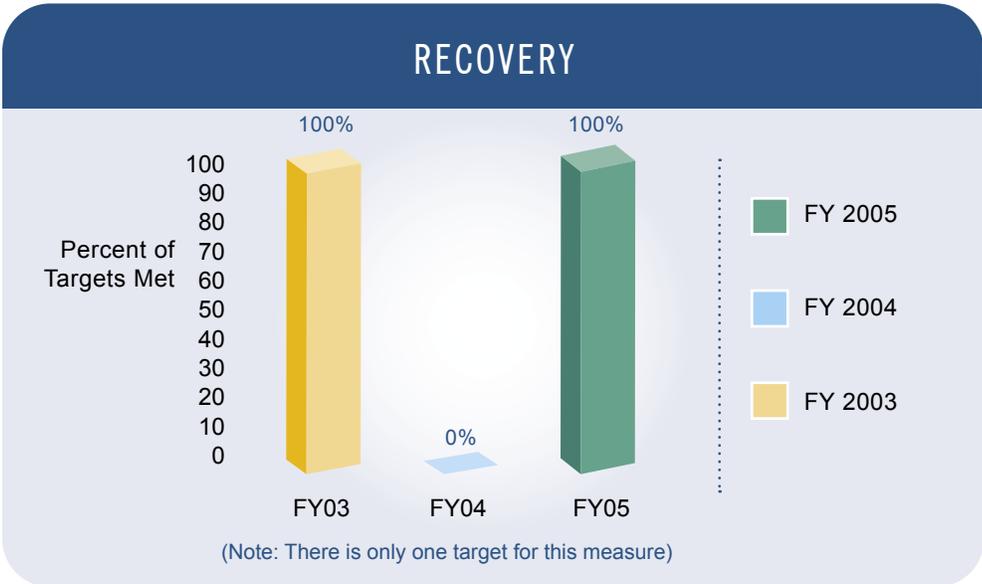
Objective 5.2 Provide scalable and robust all-hazard recovery assistance.

### HIGHLIGHTS

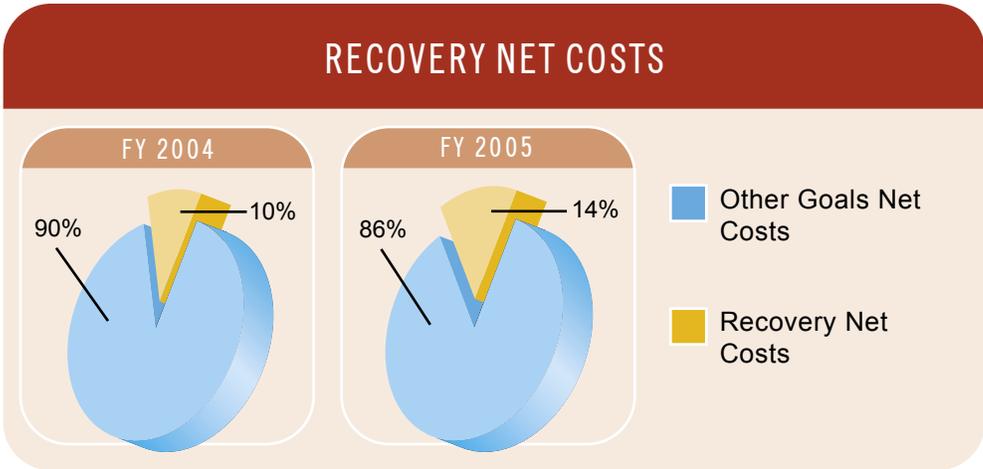
In fiscal year 2005, the Department's performance highlights in support of Recovery goals and objectives include the following:

- More than 4,000 USCG, 12,000 FEMA, and 2,500 Federal law enforcement personnel were deployed to support Hurricanes Katrina and Rita relief operations.
- IAIP's National Communications System (NCS) office supervised and coordinated telecommunications restoration and recovery efforts between government and industry during Hurricanes Katrina and Rita. NCS distributed 115,000 Government Emergency Telecommunications Service (GETS) cards. More than 32,000 GETS calls were made in support of Hurricane Katrina with a 95 percent success rate.
- In the area affected by Hurricanes Katrina and Rita, 1,169 maritime aids to navigation had discrepancies reported. Damage was primarily to beacons and buoys, which provide navigation information invaluable to determining location, dangerous areas, and directions of travel on the water. By year end, 850 aids to navigation were reset or repaired.
- The USCG has closed 699 of 1,159 pollution cases stemming from Hurricanes Katrina and Rita.
- FEMA, in conjunction with other Federal agencies, helped recovery efforts after hurricanes Katrina and Rita. Federal support to state and local officials, volunteer organizations and families devastated by Hurricane Katrina continues around the clock. Federal benefits as of the end of the fiscal year include:
  - Katrina total expedited financial assistance awarded: \$2.4 billion to 688,000 households.
  - Rita total expedited financial assistance amount awarded: \$78 million to 37,000 households.
  - Total Transitional Housing Assistance awarded: \$748 million reflecting 317,000 approved applications.

TRENDS



The Net Costs of this goal in fiscal year 2005 was \$9,451 million, or approximately 14 percent of the total Net Costs of the Department's Directorates.



To assess the achievement of all goals, we used quantitative performance measures with targets. These targets were contained in the performance-based budget submitted to Congress. A summary of our fiscal year 2005 performance against those targets is provided in the following scorecard. We report baselines that were successfully established as Target Met in the charts and tables in this section.

## PERFORMANCE SCORECARD

### Strategic Goal 5 - Recovery

\* The Performance Goal in the Scorecard is a new goal. Both the old and new goals are shown in the Performance Information tables in Section II of this report. Some goals have been improved to better reflect intended program outcomes.

Program	Performance Goal	Percent of Targets Met	Performance Trend from FY 2004	Detail Found on Page
Recovery	Ensure disaster recovery capability that restores services to individuals and rebuilds communities in non-catastrophic disasters with a high degree of customer satisfaction, while reducing cost and assistance cycle times and providing for recovery from catastrophic disasters.	100%	▲	245

## 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 Federal, state, local and private-sector efforts to help rebuild communities and restore services. We will lead long-term recovery including assessing losses, identifying infrastructure recovery actions and rebuilding the capabilities of local partners.

For the hundreds of thousands of families who have lost their homes and their communities as a result of Hurricane Katrina, the Department, working with other federal agencies, will take action to ease the burdens and the challenges of their ordeal.

The government has a duty to these survivors and must help care for those who have lost everything – and help restore their hope and their control of their lives. As President Bush made clear, “we will do what it takes, we will stay as long as it takes, to help citizens rebuild their communities and their lives.”

FEMA is not itself a first responder – but it does play a critical role in working with state and local first responders in their response and recovery efforts. State and local authorities not only possess the intimate knowledge and understanding of their home communities and their response capabilities, but they have both the legal authority and constitutional responsibility to protect and provide for their own citizens. FEMA also plays an essential role in providing additional support in the weeks and months following an incident, such as individual disaster assistance and temporary housing.

FEMA worked hard to move evacuees from temporary shelters into transitional housing. The number of people living in shelters declined from more than 273,000 to less than 12,000 by October– a decrease of more than 95 percent – despite additions resulting from Hurricane Rita.

FEMA must be better prepared to deal with all stages of a truly catastrophic event like Hurricane Katrina. For the vast majority of natural disasters, FEMA’s current capabilities are sufficient to handle the

needs of affected populations. This was demonstrated in 2004 when FEMA responded to a record 68 major disasters, including 27 hurricane-related disasters in 15 states.

But with Hurricane Katrina, these capabilities were pushed beyond the breaking point. FEMA must be prepared to anticipate both short-term and long-term needs of impacted communities. That includes having housing plans already in place for feeding and sheltering in excess of 500,000 evacuees, improving our system for rapid distribution of emergency funds, working with federal partners to develop effective anti-fraud measures, and having debris removal plans in place so that supplies are not held up because of impassible roads and so communities can more quickly begin rebuilding and repopulating impacted areas. State and local governments will need to have full awareness of how these capabilities link up with their efforts.

In all of these areas, FEMA must be strengthened not just for its own sake but so that the Federal Government is more effective at helping state and local partners better respond to and recover from catastrophic events.

## ★ SUCCESS STORY ★



*LOUISIANA - Petty Officer 3rd Class Jason Spence of Coast Guard Sector New Orleans and Petty Officer 1st Class Marc San Filippo of the Coast Guard Pacific Strike Team assess an oil spill at the Bass Oil Facility south of New Orleans. The two storage tanks failed during the height of Hurricane Katrina when an estimated 3.8 million gallons of crude oil were released into the tank berm and surrounding marsh lands. Although efforts are ongoing, the Coast Guard has already successfully recovered an estimated 1.1 million gallons of oil from this spill.*

## Strategic Goal 6 ★ Service

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

- Objective 6.1 Increase understanding of naturalization, and its privileges and responsibilities.
- Objective 6.2 Provide efficient and responsive immigration services that respect the dignity and value of individuals.
- Objective 6.3 Support the United States humanitarian commitment with flexible and sound immigration and refugee programs.
- Objective 6.4 Facilitate the efficient movement of legitimate cargo and people.

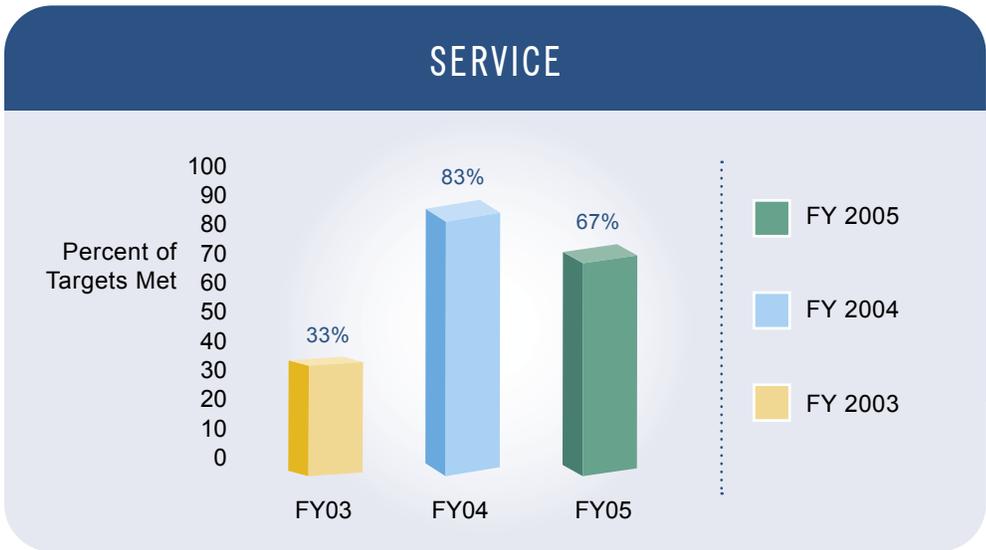
### HIGHLIGHTS

**I**n fiscal year 2005, the Department's performance highlights in support of Service goals and objectives include the following:

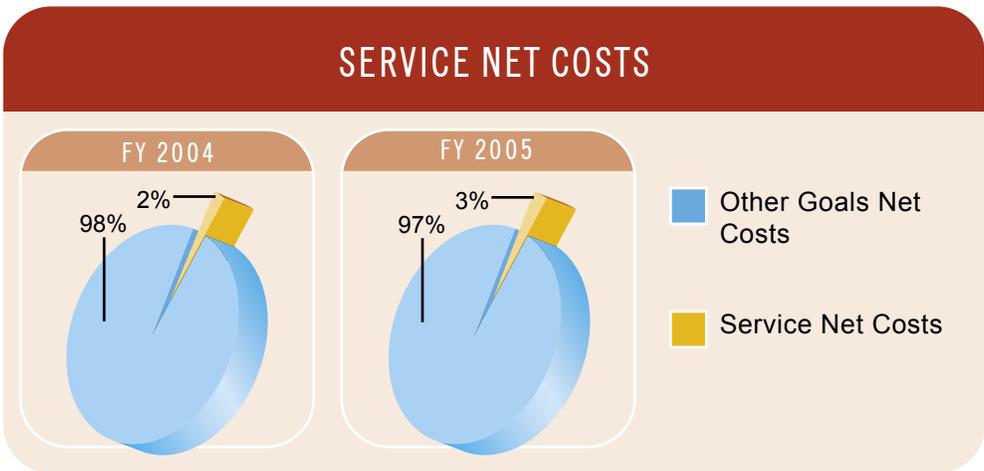
- The Department increased productivity, refined processes and automated services, and significantly reduced the backlog of applications for immigration services and benefits from approximately 3.8 million cases in January 2004 to approximately 1 million in September 2005. USCIS' goal is to eliminate the backlog of applications for immigration services and benefits, and establish a universal six-month or less processing time by September 30, 2006.
- On average, on an annual basis, USCIS:
  - Processes more than 6 million applications;
  - Serves more than 14 million customers via the National Customer Service Call Centers;
  - Serves approximately 5 million customers through information counters at local offices;
  - Processes nearly 90,000 asylum cases;
  - Performs more than 100,000 refugee interviews; and
  - Conducts the naturalization of approximately half a million new citizens.
- In the aftermath of Hurricane Katrina, USCIS offices nationwide were opened to displaced customers from the Gulf Coast to expedite replacement of immigration documents and rescheduling of Naturalization ceremonies.
- The USCG evaluates how well the Aids to Navigation (AtoN) system prevents collisions, allisions and groundings (CAG) by comparing results from the current period to those of previous periods. The Ongoing Vessel Traffic Service (OVTS), waterways management improvements and continuous maintenance of existing visual and radio aids to navigation system have contributed to a steady decline in CAGs.

- The Office of Immigration Statistics (OIS) in the Management Directorate is the nation's premier source of immigration statistics. This year OIS redesigned its website to improve customer access to high quality, user-friendly statistical immigration information.

### TRENDS



The Net Costs of this goal in fiscal year 2005 was \$1,838 million, or approximately 3 percent of the total Net Costs of the Department's Directorates.



To assess the achievement of all goals, we used quantitative performance measures with targets. These targets were contained in the performance-based budget submitted to Congress. A summary of our fiscal year 2005 performance against those targets is provided in the following scorecard. We report baselines that were successfully established as Target Met in the charts and tables in this section.

## PERFORMANCE SCORECARD

### Strategic Goal 6 - Service

Program	Performance Goal	Percent of Targets Met	Performance Trend from FY 2004	Detail Found on Page
Screening Coordination and Operations	Enable Federal Immigration and Border Management agencies to make timely and accurate risk and eligibility decisions through coordination of screening capability policies, business strategy and processes, data, information systems, and technology to further enhance security and immigration, travel, and credentialing experiences.	0%	▼	247
Backlog Initiative	To support the processing of immigration and citizenship benefits.	0%	▼	248
Asylum and Refugee Services	Adjudicate asylum and refugee applications in a timely, accurate, consistent, and professional manner.	100%	▲	249 - 250
Immigrant Services	Provide legal permanent residency information and benefits in a timely, accurate, consistent, courteous and professional manner.	100%	◀▶	251
Naturalization Services	Provide citizenship and naturalization benefits in a timely, accurate, consistent, courteous, and professional manner.	0%	▼	252
Nonimmigrant Services	Provide temporary residency information and benefits in a timely, accurate, consistent, courteous, and professional manner.	100%	◀▶	253
Aids to Navigation	Eliminate collisions, allisions and groundings by vessels on our Nation's oceans and waterways.	100%	◀▶	254
Ice Operations	Maintain operational channels for navigation, limiting channel closures to two days per year (during average winters) and eight days per year (during severe winters).	100%	▲	255

\* The Performance Goals in the Scorecard are shown as they were stated in the fiscal year 2005 performance plan, but where the goal has been improved, the new goal is shown. Both the old and new goals are shown in the Performance Information tables in Section II of this report. Some goals have been improved to better reflect intended program outcomes.

## FUTURE STEPS

**T**he 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 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. These changes 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 Environment (ACE) will: use information technology to address increasing trade volume and changing trade requirements; improve the Department's data-gathering capability; and streamline the filing process and reduce the paperwork burden by eliminating multiple, 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. This will result in the better use of personnel, equipment and technology.

### ★ SUCCESS STORY ★



*USCIS conducted the first overseas military Naturalization ceremonies since the Korean War. USCIS waived processing fees for members of the Armed Forces and made it easier for qualified military personnel to become citizens. Before October 1, 2004, active duty service members could only naturalize while in the United States. In all, more than 1,000 active duty service members took the Oath of Allegiance and became U.S. citizens while serving in Afghanistan, Kuwait, Germany, Iraq, Italy, Korea and Japan.*

## Strategic Goal 7 ★ 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.

Objective 7.1 Value our people.

Objective 7.2 Drive toward a single Departmental culture.

Objective 7.3 Continually improve our way of doing business.

### HIGHLIGHTS

In fiscal year 2005, the Department's performance highlights in support of Organizational Excellence goals and objectives include the following:

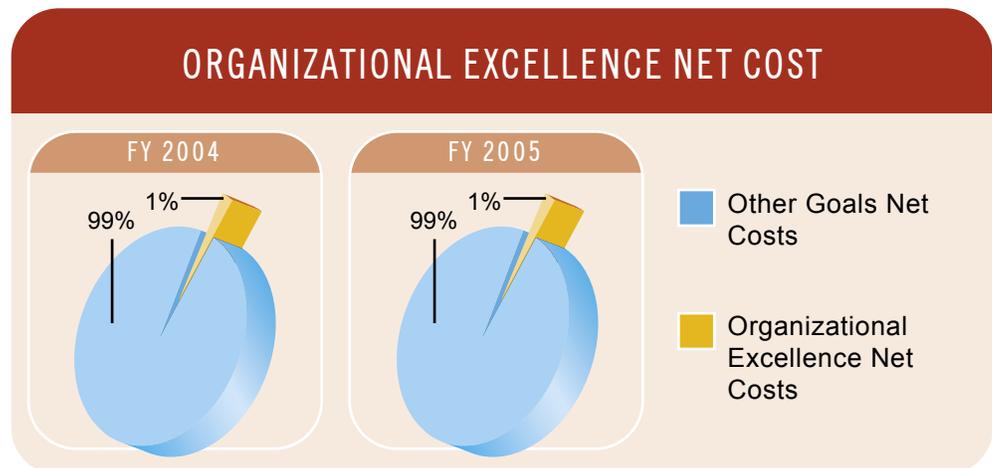
- USCG instituted the Unit Leadership Development Program, aimed at training and developing our next generation of leaders in the places they can be found accomplishing our missions: on our cutters, small boats and hanger-decks, or in our command centers, machine shops and offices. The program contains initial leadership competency-based learning activities, a crew survey, action plan job aid and an automated system of individual development plans for personnel.
- The CIO competed, evaluated, and awarded over fifteen pilot projects which demonstrate the latest advances in security, information-sharing, wireless, and geospatial technologies. This office also completed the Information Technology Infrastructure Transformation Program plan that consolidated 16 component data centers into two department-wide data centers to provide required availability and survivability; consolidated eight component Sensitive-But-Unclassified data networks into "OneNet" along with the Network and Security Operating Centers; and deployed a department-wide electronic mail solution.
- The Department continues making strides toward a single culture by creating seamless links between components. For example, on May 8, 2005, ICE agents at the land border port of Lewiston, N.Y., arrested David Kricheli, a native of the Republic of Georgia who was wanted for murder in Germany. Cross referencing existing US-VISIT fingerprints with Interpol fingerprints revealed that Michael Tonia, a Canadian truck driver and frequent border crosser, and Kricheli were the same person, enabling the arrest of this dangerous fugitive. ICE access to, and use of US-VISIT information was key to the success of this case.
- The new CBP Advanced Training Center, in Harpers Ferry, West Virginia, provides critically needed, state-of-the art training for our dedicated Federal law enforcement professionals. The preparation that officers and agents receive at the center will better equip them to keep the U.S. borders safe and secure. The center includes a Defensive Tactics Training Center; practi-

cal exercise environments: land border, airport arrival, urban hotel and warehouse; an armory; an administrative building with an auditorium, eight classrooms, a computer lab and library; and a Welcome Center. A firing range complex, situated to minimize environmental impact, is under development.

## TRENDS



The Net Costs of this goal in fiscal year 2005 was \$621 million, or approximately 1 percent of the total Net Costs of the Department's Directorates.



To assess the achievement of all goals, we used quantitative performance measures with targets. These targets were contained in the performance-based budget submitted to Congress. A summary of our fiscal year 2005 performance against those targets is provided in the following scorecard. We report baselines that were successfully established as Target Met in the charts and tables in this section.

## PERFORMANCE SCORECARD

### Strategic Goal 7 - Organizational Excellence

Program	Performance Goal	Percent of Targets Met	Performance Trend from FY 2004	Detail Found on Page
Audit, Inspections, and Investigations Program	Ensure the integrity of DHS operations by conducting independent assessments of programs' efficiency and effectiveness.	100%	N/A	256
Counterterrorism Fund	Ensure that 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.	100%	◀ ▶	257
Office of the Chief Information Officer	The Department of Homeland Security components and stakeholders have world-class information technology leadership and guidance enabling them to efficiently and effectively achieve their vision, mission and goals.	100%	◀ ▶	258
Office of the Secretary and Executive Management	Maximize management efficiencies and ensure continuity of services by consolidating DHS support services.	100%	◀ ▶	259

\* The Performance Goals in the Scorecard are shown as they were stated in the fiscal year 2005 performance plan, but where the goal has been improved, the new goal is shown. Both the old and new goals are shown in the Performance Information tables in Section II of this report. Some goals have been improved to better reflect intended program outcomes.

## 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 identify and establish competitive standards and performance measures and, when appropriate, will 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 budget, cost and performance information to ensure stakeholders are informed, reasonable standards are set, 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 continue to work with our Federal, state, local and private-sector partners to invest in areas critical to achieving our mission, where our required capability is inadequate, performance is not competitive with alternatives sources 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 are coordinating our workforce weaknesses and skill gaps with our E-Gov requirements and with our competitive sourcing schedules and opportunities. We will also continue implementing a unified, modern, performance-based personnel system and will educate and train homeland security professionals and our partners.

Significantly improved budget, performance and financial integration is key to the success of this effort. Managers must understand the full cost of their operations to the taxpayer and their level of competitive performance. This information will lead to better decision making in the allocation of resources, and we are working to move from periodic analysis to a daily and project-by-project capability.

### ★ SUCCESS STORY ★

*Every day thousands of dedicated Department of Homeland Security staff work hard to integrate and coordinate many legacy processes inherited from the original 22 agencies. By capturing its best practices, the Department constantly improves its effectiveness and efficiency. Staff members are pictured discussing how to improve the process of integrating the wealth of information that is included in the Department's performance and accountability report.*



## Other Management Information, Initiatives, and Issues

**T**he Department of Homeland Security addressed a wide range of challenges in fiscal year 2005. It defended the country against terrorism and prepared for and responded to the natural disasters that devastated a whole region of our nation. The Department has reaffirmed the necessity to excel in all aspects of Homeland Security.

The Department is applying the lessons learned regarding Hurricane Katrina and other experiences to consistently and proactively ensure we move forward intelligently and effectively to fulfill our mission and vision. While this report focuses on the Department's performance goals, measures and financial performance, we also strived to improve every aspect of management of this large and complex organization. To that end, the Department's management achieved wide-ranging success throughout fiscal year 2005. The following highlights represent just a few of those successes. The Department:

- Continued to improve 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 continued mapping CFO Vision Software to ensure departmental financial statements are prepared in accordance with applicable accounting standards. Analytical, abnormal balance, desk officer and financial statement checklist procedures were developed to ensure Department components are consistently interpreting U.S. Standard General Ledger and OMB requirements. Finally, the Department produced guidance to the components for the Department's *Performance and Accountability Report*.
- Consolidated 22 separate agency processes for advertising and transferring available excess personal property into one departmental process. Reusing excess property itself resulted in significant cost avoidance, including the transfer of one boat and several helicopters from the USCG to CBP saving approximately \$5 million.
- Developed the National Information Exchange Model (NIEM) in conjunction with the Department of Justice to standardize Extensible Markup Language (XML) messages. This greatly facilitated information sharing within Federal, state, local and tribal governments.
- Linked the Department's Investment Management System (IMS) to the Future Years Homeland Security Program (FYHSP) ensuring that the financial data in IMS is the same as in FYHSP, which eliminates the need to fund certify the business cases as a separate step.
- Implemented the human capital functional integration directive including alignment of human capital goals with strategic plan priorities.
- Became the first Agency/Department to satisfy the OMB's requirements for the establishment of a Strategic Sourcing Program. Strategic Sourcing Program savings to date are \$112,020,608.
- Established a nationwide small business outreach program including Department of Homeland Security monthly events in the Washington, D.C., area and partnerships with other Federal agen-

cies, trade associations, and others to participate in various trade fairs around the country (many of which were congressionally sponsored).

- Created a Department-wide certification program for both contracting and program management personnel. Certification statistics include 73 percent of all contracting personnel certified and 132 program managers certified. We also created an online advance acquisition planning system for use throughout the Department.
- Established an integrated acquisition program and project process that provides needed oversight without burdensome and redundant processes. The initiative includes standing up an Integrated Project Review Team (IPRT) of subject matter experts.
- Developed Department-wide Resource Management Business Models that were incorporated into Version 2 of the Homeland Security Enterprise Architecture. These models were adopted by OMB as the baseline for the Financial Management Line of Business.
- Established an Internal Control Committee, which initiated a seven-step plan to prepare for the fiscal year 2006 audit of internal controls over financial reporting and completed a comprehensive internal control assessment of the consolidated financial reporting process within the Office of the Chief Financial Officer.

## Financial Highlights

**D**uring fiscal year 2005, the Department continued to improve financial management in many areas:

- Fiscal year 2005 proved to be a watershed year for internal controls government-wide and, in particular, at the Department of Homeland Security. Shortly after passage of the Department of Homeland Security Financial Accountability Act, the Department developed a strategy and vision for implementation. Most notably, the Department:
  - Established an Internal Control Committee (ICC) responsible for improving internal controls;
  - Issued a comprehensive Implementation Guide to comply with the Department of Homeland Security Financial Accountability Act;
  - Completed a comprehensive internal control assessment of the consolidated financial reporting process within the Office of the CFO.
- The Department continued to streamline its finance and accounting organization, bringing TSA from external cross-servicing by DOT Federal Aviation Administration to the USCG and absorbing the Federal Protective Service into ICE;
- The Department focused on reducing material weaknesses by instituting a comprehensive Corrective Action Plan process. Faced with the challenge of 18 material weaknesses inherited from its component agencies when it was formed, the Department has made significant progress in eliminating or consolidating material weaknesses to seven for fiscal year 2003 and 10 for fiscal year 2004. The increase in material weaknesses in fiscal year 2004 was due to an increase in audit coverage of components that had not been subject to that level of review at legacy agencies. The consolidation of material weaknesses in fiscal year 2003 was not a true baseline of where the Department was in fiscal year 2003, but rather a reflection of where the legacy organizations were when they became part of the Department.
- Based on the Department's functional integration effort to bring all experts under one integrated method of operation, a series of Management Directives were approved in October 2004, including the Financial Management Line of Business Functional Integration Management Directive. This management directive established the Department of Homeland Security authorities and responsibilities of the Office of the CFO. The directive is the principal document for leading, governing, integrating, and managing financial management functions throughout the Department.
- During the past year, CBP has made significant progress in the implementation of a critical financial systems' initiative as part of a continuing effort to modernize its financial systems. CBP's enterprise resource planning system solution, SAP, provides the tools for enhanced customer service and facilitates a shift in the role of finance from a transaction processing and record-keeping function to an analytic and integrated decision-making function. SAP Release 3, which went live in October 2004, addresses the areas of core finance, budget execution, and financial reporting and completes CBP's original vision for implementing this new system.

## GRANTS MANAGEMENT

In the previous fiscal year, the Department issued a Management Directive, which required Department awarding offices to use the website Grants.gov FIND to post grant opportunities. Grants.gov is a government-wide clearinghouse that allows organizations to electronically find and apply for competitive grant opportunities from all Federal grant-making agencies. The Department has given the Office of Grant Policy and Oversight in the Management Directorate the responsibility to ensure that all grant award opportunity postings are in compliance with statute, regulations, executive orders and other government-wide mandates.

In addition to posting announcement synopses of funding opportunities on the website Grants.gov FIND, the Department began implementing awarding program activity in the Grants.gov APPLY part of the website during fiscal year 2005. A Grants.gov program participation schedule was developed, and the Department anticipates continuing to phase in its awarding office participation in the Grants.gov APPLY process over the next fiscal year and beyond.

Several of the Department's programs continue to be administered through outsourcing with other Federal agencies. IT support personnel from participating Department grant awarding offices with a pre-existing grant management system and the Grants.gov program office will work together throughout fiscal year 2006. These offices will test a system-to-system interface between their respective IT systems to facilitate use of the Grants.gov APPLY process as a one-stop public resource. The Department continues to coordinate with the Grants.gov program office and Department of Homeland Security awarding offices to expand use of the Grants.gov system. The ultimate goal is to make departmental grant awards, cooperative agreements, and other forms of assistance readily available to the public.

## WORKING CAPITAL FUND

The Department's Working Capital Fund (WCF) is a revolving fund, established in fiscal year 2004, pursuant to Section 506, Public Law 108-90. The WCF presents the Department with the opportunity to apply best practices from the public and private sectors for improving organizational performance and operational efficiencies, and promotes full recovery of goods and services for selected agency-wide programs, activities and services. The WCF has made considerable expansion in fiscal year 2005. The budget for the WCF increased from \$107,340,396 and 29 activities in fiscal year 2004 to a budget of \$301,246,000 and 57 activities in fiscal year 2005. This expansion reflects including the recurring and new activities in the WCF. The activities are organized under the four categories listed below:

**Fee for Service Activity** – Fee for Service is the costs for operating the “business.” The costs are reimbursed by billing customers for the provision of goods and services, through rates that are pre-approved by the CFO and reviewed by component customers; therefore, each Fee for Service Activity is expected to recover its operational costs.

**Government-Wide Mandated Service Activity** – The activities may or may not provide a direct or indirect benefit to the component assessed. Examples are the government-wide e-Government activities related to the PMA.

**Department of Homeland Security Crosscutting Activity** – The Department of Homeland Security Crosscutting Activities are Department-wide programs. The actual costs of the programs are recouped by redistributing the costs to the components based on their share of the discretionary budget, staffing or some fair and equitable pro-rata basis.

**WCF Management Activity** – The WCF Management Activity includes the funding for the staff that develops WCF policy and procedures, formulates and executes the WCF budget, and resolves disputes between activity managers and customers.

For continued expansion, the most important initiative of the WCF for fiscal year 2005 was to improve its internal operations. First, this means getting the WCF budget cycle in synchronization with the appropriated budget request. Second, continue folding into the WCF common administrative services so that changes against components are consolidated. Third, improve the cost methodology for determining customer assessments for products and services received. In addition, the WCF staff has implemented monthly Activity Managers meetings and quarterly Customer/Activity Managers meetings to address budget execution and budget formulation issues and to communicate goals and strategies throughout the Department, while ensuring fiscal responsibility and accountability, as the Activity Managers strive to reach activities goals and objectives.

In fiscal year 2005, the primary goal in accomplishing our mission was to implement policies and procedures as tools to help the Activity Managers achieve results, safeguard the integrity of their activities, and to ensure the effectiveness and efficiency of day-to-day operations. The WCF will continue all functions and activities from fiscal year 2005 in fiscal year 2006, while providing more technical assistance to all WCF Activity Managers and customers components to achieve optimum use of scarce departmental resources. Activity increases for fiscal year 2006 is due to the incorporation of the Tri-Bureau shared services activities into the WCF. Continued activity increases will ensure that the Department can provide centralized administrative services at a savings to the components that participate in the WCF.

## BANKCARD PROGRAMS

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**T**he chart included below summarizes the business accomplished through the Department's bankcards since the program's October 1, 2003, inception. With more than \$1 billion spent in more than 6 million transactions, the Department's dependence on these cards has increased steadily during fiscal year 2005. For example, September 2005 purchase cardholders spent more than \$75 million that included purchases in support of the mission of the Department and aid in the Gulf Coast hurricane disaster effort.

## BANKCARD PROGRAMS

Bank	US Bank	Citibank	Bank One
<b>Business Line</b>	<b>Purchase</b>	<b>Travel</b>	<b>Fleet</b>
<b>Cards Holders</b>	13,907	123,880	33,464
<b>Transactions</b>	1,123,435	2,704,465	2,188,024
<b>Dollars Spent</b>	\$435,031,126	\$516,739,002	\$101,432,117
<b>Refunds</b>	\$7,997,534	\$631,631	\$84,000

**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 less than \$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 by 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.

A refund is a monetary payment provided by charge card vendors to agencies. The three types of refunds are: Sales – payments from the charge card vendor to the agency based on the dollar or “spend” volume during a specified time period; Productivity – payments from the charge card vendor to the agency based on the timeliness and/or frequency of payments to the vendor; and Corrective – payments from the charge card vendor to the agency to correct improper or erroneous payments or an invoice adjustment.

## Management Assurances

### INTRODUCTION

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A number of laws require agencies to establish internal 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 annual Assurance Statements regarding whether the agency met the requirements. The Department evaluated its internal control, financial management and information security systems for fiscal year 2005. To identify and qualify material 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;
- Merits the attention of the Secretary, the President or a relevant Congressional oversight committee;
- Conformance to government-wide systems requirements; and
- Completeness and reliability of performance data.

In addition, The Department of Homeland Security Financial Accountability Act requires a separate assertion of internal control over financial reporting. The financial reporting assertion is reported as a subset to Section 2 of the Federal Managers' Financial Integrity Act. A material weakness pursuant to the Department of Homeland Security Financial Accountability Act is defined as a reportable condition or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements or other significant financial reports, will not be prevented or detected.

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



## **SECRETARY'S MANAGEMENT ASSURANCES**

The Department of Homeland Security is committed to developing a culture of integrity, accountability, and excellence in all we do. The Department's management is responsible for establishing and maintaining effective internal control over the three internal control objectives of effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations. In addition, the safeguarding of assets is a subset of these objectives. In accordance with the Financial Managers' Financial Integrity Act, the Department of Homeland Security Financial Accountability Act, and the Reports Consolidation Act, I have directed an evaluation of the internal control at the Department of Homeland Security in effect during the fiscal year ended September 30, 2005. This evaluation was conducted in accordance with OMB Circular No. A-123, *Management Accountability and Control*, Revised June 21, 1995, and GAO's *Standards for Internal Control in the Federal Government*. Based on the results of this evaluation and assurances provided by Component Heads, the Department provides the following assurance statements.

### **Reporting Pursuant to the Federal Managers' Financial Integrity Act, Section 2 and the Department of Homeland Security Financial Accountability Act**

Based on information provided, the Department of Homeland Security provides reasonable assurance as to the overall adequacy and effectiveness of internal controls, except for internal controls over financial reporting as described in the paragraph below, and the following material weaknesses, as more specifically reported by the GAO High Risk Series:

- Implementing and Transforming the Department of Homeland Security; and
- Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security.

The Department of Homeland Security is unable to provide reasonable assurance that internal control over financial reporting was operating effectively. The following material weaknesses were found:

- Financial Management Oversight of Components;
- Financial Reporting Process;
- Financial Management Systems Functionality and Information Technology;
- Reconciling Fund Balances with Treasury;
- Accounting for Property, Plant, and Equipment;
- Accounting for Operating Materials and Supplies, and Seized Property;
- Accounting for Undelivered Orders, Accounts and Grants Payable, and Disbursements;
- Valuation of Actuarial Liabilities;

- Budgetary Accounting; and
- Reconciling Intragovernmental and Intradepartmental Balances.

#### **Reporting Pursuant to Federal Managers' Financial Integrity Act, Section 4**

The Department of Homeland Security's financial management systems do not substantially conform to government-wide requirements. The following non-conformances were found:

- Federal Financial Management Systems Requirements;
- Federal Accounting Standards;
- Noncompliance with the Standard General Ledger; and
- Not all financial management systems are fully certified and accredited in accordance with the Federal Information Security Management Act.

#### **Reporting Pursuant to the Reports Consolidation Act**

Based on information provided, the Department of Homeland Security's performance data used in the Performance and Accountability Report is complete and reliable, except for the following material inadequacies that were found within the reporting of fiscal year 2005 actual results against annual targets for the following programs:

- Biosurveillance;
- Fire Act Program; and
- Interoperability & Compatibility.

The Department of Homeland Security is unable to provide an assertion for the completeness and reliability of financial data used in the Performance and Accountability Report, as reported above for internal controls over financial reporting.



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Michael Chertoff  
Secretary Department of Homeland Security

## INTERNAL CONTROL COMMITTEE

**F**iscal year 2005 proved to be a watershed year for internal controls at the Department. Shortly after passage of the Department of Homeland Security Financial Accountability Act, the Department developed a strategy and vision for implementation. Most notably, the Department established an Internal Control Committee (ICC) responsible for improving internal controls. ICC membership includes a Senior Management Council, an ICC Board, and a Senior Assessment Team. The Senior Management Council is comprised of the Department's Under Secretary for Management, Chief Administrative Services Officer, Chief Financial Officer, Chief Human Capital Officer, Chief Information Officer, and Chief Procurement Officer. Their function entails overall management accountability, monitoring of corrective action plans, and ICC sponsorship. The ICC Board seeks to integrate and coordinate internal control assessments with other internal control-related activities and includes representatives from all Department lines of business to address crosscutting internal control challenges. Finally, the Senior Assessment Team, comprised of senior level financial managers, carries out and directs component level internal control assessments. Over the past year the ICC has:

- Published our landmark implementation guide, which is specifically tailored to support an attestation on internal control over financial reporting as required by the Department of Homeland Security Financial Accountability Act.
- Developed a comprehensive integrated framework for the Federal Managers' Financial Integrity Act and took significant steps to prepare for implementation of the recent revisions to OMB Circular No. A-123, *Management's Responsibility for Internal Control*, effective in fiscal year 2006.
- Implemented the GAO *Internal Control Management and Evaluation Tool* across the Department to facilitate the development of internal control activities in accordance with GAO's *Standards for Internal Control in the Federal Government*.
- Initiated a seven-step plan to prepare for the fiscal year 2006 audit of internal controls over financial reporting.
- Completed a comprehensive internal control assessment of the consolidated financial reporting process within the OCFO. In addition, the USCG, one of our largest components, has initiated process level documentation pilots.
- Developed corrective action plans for all material weaknesses and reportable conditions and a Management Directive and Process Guide to ensure these corrective action plans demonstrate results.



Internal Control Provisions of the  
Department of Homeland Security  
Financial Accountability Act

Implementation Guide

Exposure Draft  
Fiscal Year 2005



## MANAGEMENT PLANS, CORRECTIVE ACTIONS AND NON-COMPLIANCES WITH LAWS AND REGULATIONS

### CORRECTIVE ACTION STATUS

**Figure 1** presents a chart of Material Weaknesses, Reportable Conditions and Non-Compliances with Laws and Regulations which the Department identified and reported from the inception of the Department in fiscal year 2003 through fiscal year 2005. During fiscal year 2005, one new material weakness was identified, two existing material weaknesses were combined, one reportable condition was downgraded and three new non-compliances with laws and regulations were identified. The three new non-compliances with laws and regulations were for the: *Federal Financial Management Improvement Act of 1996*, *Government Performance and Results Act* and *Department of Homeland Security Financial Accountability Act*.

FIGURE 1

Status of Financial Statement Audit Findings				
	Legacy Components Pre-FY 2003	FY 2003	FY 2004	FY 2005
<b>Material Weaknesses</b>	18	7	10	10
<b>Reportable Conditions</b>	12	7	3	2
<b>Compliance with Laws and Regulations</b>	1	3	4	7
<b>Total</b>	31	17	17	19

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, requires that each agency identify and report on the most critical material weaknesses affecting the agency. The Department has adopted the high-risk designations recommended by the GAO to better focus on the major challenges of the organization. Department staff and senior management officials continuously monitor corrective action progress for all material weaknesses and reportable conditions. The resolution of these weaknesses, as well as the self-identified internal control weaknesses, reportable conditions and non-compliance findings reported in the fiscal year 2005 financial statements are presented in the following tables.

The Department has established a corrective action planning process for remediating corrective actions for material weaknesses, reportable conditions and non-compliance findings. While the Department made progress in correcting material weaknesses reported in the fiscal year 2004 financial statement audit, delays in completing corrective actions in some components and a re-base-lining of several multiyear corrective action plans precluded the achievement of critical milestones originally scheduled for completion in fiscal year 2005.

## CORRECTIVE ACTIONS

### FMFIA Section 2 Material Weaknesses as of September 30, 2005

**Title:** Implementing and Transforming the Department of Homeland Security

**Entities:** Department

**Originally Reported:** GAO-05-207

**Target Date:** Fiscal Year 2007

#### Description:

For the Department to successfully address its daunting management challenges and transform itself into a more effective organization, it needs to (1) develop a department-wide implementation and transformation strategy that includes comprehensive threat and risk assessment and strategic management principles to set goals and priorities, focus its limited resources, and establish key milestones and accountability provisions; (2) develop adequate performance measures and evaluation plans; (3) provide sound and innovative human capital management; and (4) follow through on its corrective actions to address management, programmatic, and partnering challenges.

#### Corrective Actions:

Concurrently, the Department is initiating corrective actions on a broad array of programmatic challenges that require sustained effort. These challenges include improving transportation, cargo, and border security; systematically tracking visitors; consolidating border security functions; updating outmoded capabilities in the USCG fleet; and balancing homeland security with other missions, such as law enforcement and disaster planning. Also, the Department's progress in forming effective partnerships with other governmental and private-sector entities remains challenged in several critical areas, such as improving critical infrastructure protection and emergency preparedness, communication among first responders, dissemination of timely and specific threat information, and planning for continuity of operations in case of an adverse event.

#### Fiscal Year 2005 Progress:

With the advent of the Second Stage Review (2SR) the Department has put forth a six point plan to transform the Department into a more effective organization with robust planning, management, and operations while maintaining and improving readiness for its highly critical mission to secure the homeland. Five of the six 2SR points include initiatives to:

- Strengthen border security and interior enforcement and reform immigration processes;
- Enhance information sharing with our partners;
- Improve the Department's financial management, human resource development, procurement, and information technology;
- Realign the Department's organization to maximize mission performance; and
- Implement and transform the Department of Homeland Security.

**Title:** Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security

**Entities:** Department

**Originally Reported:** GAO-05-207

**Target Date:** Fiscal Year 2007

**Description:**

Recent federal law and policy changes established requirements for information-sharing efforts, including the development of processes and procedures for sharing intelligence, law enforcement, immigration, critical infrastructure, first responder, and other homeland security related information. However, the required policies and procedures are still being developed and need to be consistently and effectively implemented. The Department has not established processes and procedures for disseminating homeland security information to the private sector.

**Corrective Actions:**

To address potential barriers to information sharing, strategies have been developed to address information sharing challenges, including: (1) establishing clear goals, objectives, and expectations for participants in information sharing efforts; (2) consolidating, standardizing, and enhancing federal structures, policies, and capabilities for the analysis and dissemination of information, where appropriate; and (3) assessing the need for public policy tools to encourage private-sector participation.

**Fiscal Year 2005 Progress:**

The Secretary's Second Stage Review includes a sixth initiative to establish appropriate and effective information-sharing mechanisms to improve Homeland Security.

## Department of Homeland Security FAA Material Weaknesses as of September 30, 2005

### **Auditor Identified Material Weaknesses in Internal Controls Over Financial Reporting**

**Title:** Financial Management and Oversight

**Entities:** Department, ICE, USCG

**Originally Reported:** FY 2003 (Department), FY 2004 (ICE), FY 2005 (USCG)

**Target Date:** 9/30/2006

#### **Description:**

Note: This material weakness is a combination of two fiscal year 2004 material weaknesses - (A) Financial Management Structure and (B) Financial Management and Oversight at ICE.

ICE did not correct any conditions reported in fiscal year 2004 and incurred new findings. Financial management at ICE continues to be ineffective and requires significant assistance from the OCFO. ICE: (1) lacked a sufficient number of qualified managers and staff to perform its accounting responsibilities; (2) lacked a strategy to identify root causes of errors and correct deficiencies; (3) continued to operate unreliable processes which resulted in material errors, irregularities and abnormal balances; (4) executed administrative and accounting functions for other Department components without proper reimbursable agreements; and (5) was unable to record correcting adjustments to restate the fiscal year 2004 financial statements for known errors.

USCG: (1) did not fully implement a financial management organizational structure that ensures complete and accurate data to support financial statement assertions; (2) did not establish clear management oversight for adjustments to account balances; and (3) did not fully establish management oversight and provide accounting operational guidance to other offices and facilities within USCG.

The OCFO: (1) has not fully completed the build-out of the OCFO; (2) provided effective management and oversight to ensure that: (a) component corrective action plans are developed, implemented, tracked and completed, (b) that component financial management and reporting problems are promptly and effectively addressed, (c) the separation of workload among OCFO staff allows for proper supervisory reviews, and provides appropriate back-up for key staff, and (d) processes are implemented to draft a timely, accurate and complete PAR and accurate monthly financial statements.

#### **Corrective Actions:**

The OCFO will use contractor and staff to prepare standard financial management operating policies and procedures; complete an internal control framework for financial management; evaluate internal controls over financial reporting, identify risks; and create an inventory of internal control issues.

ICE will update an inventory of financial policies and procedures. The Department and ICE will transition legacy financial data to ICE. ICE will establish an office to ensure that agreements are obtained timely and to track performance. Funds are requested to hire 14 staff to address data integrity issues. A contractor will complete a study of financial management.

**Fiscal Year 2005 Progress:**

The OCFO hired and contracted accountants, auditors and senior financial managers who, collectively, address the staffing deficiencies. The OCFO established Desk Officer reviews which address accounting and reporting issues including eliminations, abnormal balances, and Standard General Ledger (SGL) analytic issues. An Internal Control Committee including CXOs and program managers was set up early in the year. The GAO Internal Control Management and Evaluation tool based on the five essential elements of internal control was completed. ICE has made some progress in clearing up abnormal balances, eliminations, and SGL analytic issues. The USCG was added as a new finding in fiscal year 2005.

**Title:** Financial Reporting  
**Entities:** Department, EP&R, ICE, SLGCP, TSA, USCG  
**Originally Reported:** FY 2003  
**Target Date:** 9/30/2007

**Description:**

The OCFO: (1) was unable to prepare a balanced consolidated financial statement until November 2005; (2) has not fully documented policies and procedures for many critical financial reporting processes; (3) has not ensured that monthly TIER submissions were prepared timely and accurately; and (4) did not require components to use TIER analytical tools and accepted explanations from components for financial statement abnormalities that were incomplete and inaccurate.

The USCG: (1) used a financial reporting process that required a significant number of "on-top" adjustments; also, TIER data is produced from a database that does not match the underlying transactions; (2) had significant abnormal balances; (3) routinely processed adjusting entries without verifying that ending balances were properly supported at the transaction level; (4) did not consistently document year-end closing entries; and (5) had poor design of some account reconciliation processes.

ICE has not: (1) established effective internal controls over the daily accounting and recording of transactions, supervisory review, reconciliation of accounts and documentation of supporting information for auditor review; (2) reconciled quarterly Treasury budgetary resource reports that could indicate a potential anti-deficient situation ; (3) designed some account reconciliations well; (4) provided guidance to Department-ICE components explaining how to process financial transactions timely and accurately; (5) submitted OCFO deliverables timely; and (6) successfully integrated Federal Protective Service accounting data from GSA.

TSA experienced difficulties in the monthly closing of its general ledger due in part to its change in accounting service provider. USCG, SLGCP, TSA and ICE did not accumulate cost data by strategic goal. TSA and FEMA did not document the full cost of each strategic goal. SLGCP has not ensured that their accounting provider can meet monthly TIER edits and is performing quality assurance work on financial statement and footnote disclosure data. FEMA's National Food Insurance Program (NFIP) contractor did not provide year end data timely.

**Corrective Actions:**

The OCFO will: (1) obtain additional staff to provide oversight and assist components; (2) lead the components in an assessment of internal controls over financial reporting; (3) update and communicate improved fiscal year 2005 PAR Guidance; (4) conduct TIER training; (5) develop monitoring controls to ensure that components comply with PAR financial reporting policies and procedures; (6) implement a process to prepare financial statements that fully complies with reporting standards; (7) provide instruction and management oversight of the FMFIA evaluation process; and (8) develop a method for reporting cost data by strategic goal.

**Fiscal Year 2005 Progress:**

The OCFO: (1) hired and trained new personnel; (2) developed an Internal Control Committee; (3) distributed updated fiscal year 2005 PAR Guidance; (4) issued an implementation guide to financial reporting; (5) developed an assessment for the Secretary's assurance statements and for FMFIA; (6) developed a project plan which inventoried and documented internal controls over financial reporting; (7) conducted an assessment of current financial reporting processes to reduce complexity and improve internal controls; and (8) cross trained staff to reduce reliance on a limited number of key personnel.

**Title:** Financial Systems Security

**Entities:** Department

**Originally Reported:** FY 2003

**Target Date:** 9/30/2007

**Description:**

Five component financial and feeder systems were not properly certified and accredited. Problems with system access security for hired and terminated employees. Lack of review of access rights to key financial systems. Missing or poor password controls. Poor systems security configurations. Changes to system configurations were not always documented. Audit log trackings were not always activated. Poor operating system controls. Incomplete segregation of duties and incomplete assignment of key security positions. Five components had incomplete or outdated business continuity plans and systems. Continuity plans were not adequately tested and training for emergencies was incomplete. Weak access and segregation controls associated with key Department financial applications.

**Corrective Actions:**

Audit Findings arising from OMB Circulars A-127 and A-130 have been consolidated into a single material weakness of the Department. Corrective Actions on these areas are addressed within the Department's FISMA process and corrective action plans are covered under the Plan of Action and Milestones (POA&M) required by the statute.

**Fiscal Year 2005 Progress:**

The Department achieved two significant milestones that will help the department move toward managing a successful information security program. First, the Department completed a comprehensive inventory of its major applications and general support systems, including contractor and national security systems, for all organizational components. Second, the Department implemented a department-wide certification and accreditation (C&A) tool that incorporates the guidance required to adequately complete a C&A for all systems. The completion of these two tasks eliminated two factors that significantly held the department back in achieving some success in establishing its security program in the last two years.

The Department issued the *DHS Information Security Program Plan of Action and Milestones (POA&M) Process Guide*, which provides the department and components with the necessary guidance and procedures to develop, maintain, report, and mature the POA&M process.

**Title:** Fund Balance with Treasury

**Entities:** ICE, USCG

**Originally Reported:** FY 2004

**Target Date:** 12/30/2006

**Description:**

ICE: (1) did not complete and lacked clear written policies to timely reconcile FBWT accounts; (2) did not timely and accurately clear items carried in suspense; and (3) was unable to obtain document level information for ICE-Components processed by legacy agencies.

USCG: (1) did not timely and accurately clear suspense items; and (2) did not maintain proper documentation to validate the accuracy of FBWT reconciliations and the clearing of suspense items.

**Corrective Actions:**

USCG will hire additional staff to handle FBWT reconciliation and document procedures for developing suspense reports and clearing suspense transactions older than 30 days. ICE will assemble a team with contractor support to tackle resolution of all outstanding items. ICE plans to hire additional personnel to work in this area.

**Fiscal Year 2005 Progress:**

ICE has assembled a FBWT reconciliation team, developed suspense backlog reports, and held conference calls with ICE offices to obtain proper supporting documentation. After conducting a pilot internal control assessment of FBWT in fiscal year 2005, USCG will develop a detailed plan, approach, priority list and schedule for budgetary and proprietary reconciliations during the first quarter of fiscal year 2006.

**Title:** Property, Plant, and Equipment

**Entities:** BTS (US-VISIT), USCG

**Originally Reported:** FY 2003

**Target Date:** 9/30/2007

**Description:**

USCG has not: (1) accurately, consistently, and timely recorded PP&E in its fixed asset system; (2) maintained proper documentation; (3) documented methodologies to support PP&E values not supported by original acquisition or other documentation; (4) implemented a proper tracking and tagging system; (5) developed an effective physical inventory process for repairable PP&E; and (6) properly accounted for improvements and impairments to buildings and structures.

The US-VISIT program did not consistently identify and capitalize software development costs or properly distinguish software in production from software in development.

**Corrective Actions:**

USCG will evaluate, develop, implement and validate existing controls. Alternative methodologies will be developed, evaluated, and tested to support the value of PP&E that lacks sufficient documentation. Documentation standards and retention policies will be reviewed and improved. Policy and procedures for performing physical inventories of repairable items will be updated. Accounting for improvements to buildings and structures will be reviewed for compliance with GAAP. Lease agreement procedures will be updated. ICE will review existing procedures on identifying and capitalizing software development costs and on recording software that is moved from development to production.

**Fiscal Year 2005 Progress:**

ICE has reviewed existing software capitalization policy and developed and implemented improved procedures.

Out of the total PP&E balance of approximately \$5.9 billion has been reviewed and accepted by the auditors as adequate to support PP&E balances. During fiscal year 2005, USCG has made substantial progress in PP&E by presenting an additional \$1.6 billion in asset value for audit review. The remaining \$1.2 billion will be addressed in fiscal year 2006 and fiscal year 2007.

**Title:** Operating Materials and Supplies (OM&S), and Seized Property

**Entities:** USCG, USSS

**Originally Reported:** FY 2003

**Target Date:** 9/30/2007

**Description:**

USCG: (1) internal controls over physical counts at field locations were not operating effectively; (2) policies, procedures and controls for OM&S at Inventory Control Points (ICPs) were not completely implemented; and (3) processes and controls were not in place to fully support the calculated value of field held and ICP OM&S.

At USSS, the September reconciliation for seized currency was not completed timely (though earlier time periods were okay).

**Corrective Actions:**

USCG will update physical inventory policy and procedures for field units and Inventory Control Points (ICPs). Teams will conduct comprehensive field unit inventories. A monitoring website for field unit physical inventories will be developed. Location validation programs will be reviewed for adequacy of design. A risk-based cycle counting policy will be reviewed. Policy for documentation support and OM&S valuation will be updated.

**Fiscal Year 2005 Progress:**

USCG is preparing a plan to decrease the amount of OM&S on hand and to properly value and classify the remaining balance. Improvements have begun in fiscal year 2005 with \$2.5 million in funding dedicated to this effort that is projected to require two years and additional funding to accomplish. Significant remediation includes rebalancing inventories, re-pricing on-hand quantities and disposing of excess inventory. The result will be a significant reduction in risk by implementing a major change in business practices in this area.

USSS has instituted new policy and procedures and all targets have been satisfied with the exception of the final implementation of the C&E system slated for 2007. The target date for completion of the C&E was changed due to funding and resources needed to develop and implement the system.

**Title:** Undelivered Orders, Accounts and Grants Payable, and Disbursements

**Entities:** FEMA, ICE, SLGCP, TSA, USCG

**Originally Reported:** FY 2003

**Target Date:** 9/30/2006

**Description:**

ICE has not: (1) ensured that invoices are paid timely and with proper documentation and that IPACs are cleared timely from suspense; (2) recorded S&T and IAIP disbursements made by legacy agencies timely; (3) prevented duplicate payments to vendors on prior year obligations for selected shared Treasury accounts; (4) properly liquidated open obligations; (5) adopted policies to verify and validate obligations performed by field personnel; (6) verified the accuracy of obligations created in PRISM and other ICE systems; and (7) implemented policies that require confirmation of receipt of goods and services prior to payment of invoices.

USCG did not: (1) ensure timely review and validation of undelivered orders (UDOs); (2) timely reconcile paid orders to FBWT disbursements; (3) lacked policies to ensure the timely recording of contract awards; (4) weakness with policies and procedures related to the Financial and Procurement Desktop (FPD); (5) fully implement a Procurement Management Effectiveness Assessment (MEA), an assessment tool for compliance with Federal statutes and regulations; and (6) fully document the process used to estimate accounts payable.

SLGCP did not resolve discrepancies underlying a year-end grants payable liability.

TSA: (1) was unable to support the accuracy and completeness of accounts payable and UDO balances; (2) had inadequate grant documentation; (3) along with FEMA and SLGCP, did not properly monitor compliance with the *Single Audit Act Amendments of 1996* and laws and regulations supporting *Audit Follow-up*; and (4) did not validate grant accrual methodology.

**Corrective Actions:**

Develop an enforcement mechanism to ensure that UDOs are reviewed on a quarterly. Review personnel assignments to ensure proper separation of duties. Improve UDO reports. Receive assurances that grantee reporting systems are certified and accredited. Hire personnel to perform oversight and monitor grant close out activities. Ensure that grantee application packages are maintained, performance reports are obtained, and OMB Circular A-133 requirements are met. Revise financial procedures to prevent duplicate payments across current and past accounting providers. Ensure that payments are made only after invoices are approved and evidence of the receipt of good or service is received. Complete disbursement testing to determine accurate accrual percentages. Issue memorandum instructing staff on proper procedures.

**Fiscal Year 2005 Progress:**

TSA obtained missing performance reports, payment approvals, and application packages for all managed grants. The Office of Acquisitions issued instructions mandating the use of the Central Contractor Registration (CCR) to verify the accuracy of all tax identification numbers. TSA has in combination

with SLGCP implemented a process which ensures that all OMB Circular No. A-133 requirements are met by ensuring application packages are maintained, and performance reports obtained.

USCG and ICE have improved controls relating to processing obligations, improved segregation of duties, updated program logic in systems, revised instructions to oversee and monitor the contract acquisition process and reviewed and revised policies and procedures as necessary to correct the deficiencies.

**Title:** Actuarial Liabilities

**Entities:** USCG

**Originally Reported:** FY 2005

**Target Date:** 9/30/2006

**Description:**

USCG: (1) was unable to fully support its assertions relating to the accuracy and completeness of the underlying participant data, medical cost data, and trend and experience data provided to and used by the actuary for the calculation of its MRS and post-employment travel benefits liabilities; (2) did not follow established policies and procedures to accumulate data provided to and used by the actuary for computation of post-employment travel benefits; (3) did not perform periodic reconciliations between the medical expenditures subsidiary ledger and those recorded in the general ledger, which would have identified errors in the underlying data; and (4) did not have effective policies, procedures and controls to monitor the expenditures for medical services to ensure they are billed at proper rates and for valid participants only.

**Corrective Actions:**

USCG will: (1) develop and implement policy and procedures to include preventive and/or detective controls that support management's assertion of completeness, existence and accuracy of personnel data collected and provided to the actuary; (2) perform a thorough review of the spreadsheet used to record and monitor medical expenses to identify and correct any technical errors; (3) perform a periodic reconciliation between the medical expenditures recorded in the subsidiary ledger and records in the CAS and clearly identify reasons for variances in expenditures and undelivered orders; (4) conduct an update to the current Experience Studies to provide more accurate trending of USCG population experience, as recommended by USCG's actuary in their fiscal year 2003 and fiscal year 2004 reports; (5) establish and document specific procedures and internal controls to provide review and oversight of its actuarial firm to ensure that appropriate assumptions and data are used to develop the estimate for post-employment actuarial liabilities to include MRS and post-employment travel benefits; (6) perform a review of the annual headcounts provided by the PSC to the actuary, specifically by reconciling and resolving any discrepancies between the JUMPS payroll data to Direct Access personnel data to ensure completeness and accuracy; (7) verify that MTFs only bill for services provided to eligible USCG participants and sponsors; and (8) monitor medical care costs, including IBNR costs.

**Fiscal Year 2005 Progress:**

Not applicable, new finding.

**Title:** Budgetary Accounting

**Entities:** ICE (and Components), TSA, USCG

**Originally Reported:** FY 2004

**Target Date:** 6/30/2006

**Description:**

ICE (and ICE-Components): (1) control weaknesses might have allowed ICE to become anti-deficient; (2) obligations were not always recorded in a timely manner; (3) had an incomplete list of open obligations; (4) did not properly receive accounting records and responsibilities from legacy agencies; (5) had problems with obligations transferred between CBP and ICE; (6) did not have contracting officer approvals clearly documented on obligating documents; and (7) had inadequate controls over SF 132 and SF 133 (budgetary) reports.

USCG: (1) did not record post-employment permanent change of station (PCS) travel obligations timely; (2) did not use the validation and edit checks of the FPD; (3) did not properly interface FPD recorded obligation to the CAS; (4) had weaknesses in the system capabilities and controls over the recording of budget authority; (5) did not have controls to preclude the processing of procurement transactions by contracting officers with expired warrant authority; and (6) did not monitor commitments for aging or for timely release of funds.

The CAS used by TSA's accounting service provider could not record prior year de-obligations at the transaction level.

**Corrective Actions:**

ICE will: (1) replace collateral duty contracting officers with a small number of full-time contracting officers; (2) identify any obligations that were not recorded; (3) reconcile all items on SF 132/133 and make sure they are properly recorded; and (4) review suspense accounts for unrecorded items.

USCG will: (1) rely on the combination of new system edit checks and various non-system controls including FPD and CAS system enhancements of a specific "funds check" feature; (2) establish a methodology to determine the distribution of funds derived from the Oil Spill Liability Trust Fund for the Acquisition, Construction, and Improvements (AC&I) appropriation; (3) put in place strengthened controls for preventing contracting officers with expired warrant authority from conducting procurement transactions; (4) policy guidance will be added that requires all administrative target units to review commitments quarterly to ensure all commitments are valid, and executable; and (5) evaluate the costs and benefits of applying resources to exercise oversight of un-obligated commitments.

**Fiscal Year 2005 Progress:**

ICE: (1) pulled warrants of collateral duty contracting officers; (2) conducted reviews to identify and record unrecorded 2004 obligations; and (3) conducted reviews of suspense.

USCG: (1) revised controls and related policies and procedures to review and update the warrant authority of active contracting officers; and (2) developed and provided specific training related to any internal controls and related policy and procedure changes.

**Title:** Intragovernmental and Intradepartmental Balances

**Entities:** ICE (and Components), CBP, CIS, USCG

**Originally Reported:** FY 2003

**Target Date:** 9/30/2006

**Description:**

The Department did not reconcile intragovernmental balances with other Federal entities, especially the Department of Defense. The OCFO did not perform reconciliations throughout the year of all intragovernmental balances. ICE (and ICE components) and the USCG did not adopt effective SOPs or tracking systems. Intra-Department transactions between ICE, CBP, USCIS and other Department components did not eliminate correctly during the year. On-top adjustments were required at year-end.

**Corrective Actions:**

Develop reports that track intergovernmental transactions and create trial balances by trading partner. Dedicate an individual to reconciling and reporting Department governmental transactions. Review vendor table entries for Federal vendors for accuracy. Review existing obligating documents for accuracy. Improve documentation on inter-agency agreements and prevent mislabeling of components. Immediately charge back IPACs directed to the wrong component. Review financial reports for elimination related errors.

**Fiscal Year 2005 Progress:**

USCG implemented reports early in the year and has had clean intra-Department eliminations thereafter.

ICE completed the following five-part effort:

- 1) Reviewed the vendor tables to ensure that all Federal vendors are properly classified and that each has the correct trading partner code,
- 2) Obligated documents are reviewed and compared with the accounting system record to determine whether or not that it is linked to the correct vendor,
- 3) Ensured the Office of Procurement redouble its effort to issue interagency agreements and other obligating documents with proper billing instructions to reduce the widespread confusion between CIS and ICE exhibited by both internal offices and agencies external to ICE and CIS.
- 4) Mandated that incoming IPACs directed to the wrong Department agency be charged back to the originating agency with a notation that contains the correct Agency Locator Code. Currently, these IPACs are transferred to the correct Department agency. The IPAC then loses its original identity and tracking become a lengthy, labor intensive process. Expenditures between ICE and CIS become artificially inflated.
- 5) Created a Modification and Reconciliation Section to consolidate efforts and make corrections to the accounting system that will aid in the issuance of the error free financial reports. Previously, this function was spread among several units in the Office of Financial Management.

**Auditor Identified Reportable Conditions in Internal Controls Over Financial Reporting**

**Title:** Environmental Liabilities

**Entities:** CBP, S&T, USCG

**Originally Reported:** FY 2004

**Target Date:** 5/31/2006

**Description:**

At Coast Guard: (1) policies and procedures are not in place to identify, evaluate, and estimate potential environmental remediation of Coast Guard sites; (2) personnel do not always follow stated policies and procedures; (3) environmental liability estimates associated with lighthouses/light stations did not include soil testing assessment and remediation costs; (4) estimates for shore facilities and vessels were misstated; (5) consistent policies and procedures are needed to estimate remediation costs of specific projects, such as lighthouses and small arms firing ranges; and (6) no management review of year-end environmental compliance and remediation estimates.

At S&T, policies and procedures have yet to be developed to determine potential risk or accurately estimate an environmental liability for Plum Island.

CBP did not determine a year-end environmental liability until a review was performed in response to audit inquiry.

**Corrective Actions:**

USCG will develop guidance on the application of contingency factors for estimating environmental liabilities and develop a cost estimation model for environmental remediation of lighthouses. Estimation techniques for PCB removal costs on vessels will be simplified and improved. A revised Process Analysis Document (PAD) was created and utilized for the development of the fiscal year 2004 year-end vessel environmental estimates. The historical costs are developed for each type of vessel and starting in fiscal year 2005, this formula will be adjusted every 3 years to account for all written estimates released by the CG YARD. To be in compliance with SFFAS Number 6, paragraph 96, policies and procedures on the use of indexing will be implemented as applicable.

**Fiscal Year 2005 Progress:**

All units responsible for completing shore facilities environmental liabilities estimates at USCG have been directed to comply with existing policies dictated in Section 7.E of COMDTINST M71000.3C via memo 5200, dated 16Sep05 from CG-4. Specific procedures are currently under development and are expected to be released via incorporation in the Shore Asset Management System (SAM) SOP NLT end of 1st quarter fiscal year 2006.

CBP's finding is new for fiscal year 2005.

**Title:** Custodial Revenue and Drawback

**Entities:** CBP

**Originally Reported:** FY 2002

**Target Date:** 1/31/2009

**Description:**

For drawback: (1) the revenue accounting system, Automated Commercial Environment (ACE), lacked controls to detect and prevent excessive drawback claims and payments, necessitating inefficient manual processes to compensate; and (2) review policies were incomplete.

For the entry process: (1) outdated and poorly documented Compliance Measurement Program (CMP) policies and procedures produced inconsistent performance across ports of entry; (2) management identified weaknesses with CMP sample data that could affect the accuracy of the revenue gap disclosed in the CBP PAR; and (3) the CMP sample size was lower than in previous years.

For Bonded Warehouses (BWs) and Foreign Trade Zones (FTZs): (1) a lack of monitoring guidance and training; and (2) a CMP to measure the revenue gap and effectiveness of controls over trade compliance at FTZs and BWs.

**Corrective Actions:**

Automated Commercial Environment (ACE) will ensure that the drawback module includes all data elements needed for proper tracking and control. A statistician will develop a valid sampling methodology. Automating the in-bond process will allow for monitoring and tracking of in-bond shipments. It will also allow for the implementation of a new methodology to perform a complete review of imports included in drawback claims.

**Fiscal Year 2005 Progress:**

In-bond corrective actions for fiscal year 2005 have focused on issuing directives to standardize data submissions and mandate that all in-bond movements be presented electronically. CBP will then be able to implement a module in the Automated Commercial Environment (ACE) to electronically track and monitor in-bond shipments

Drawback specialists have been trained in the new methodology and it has begun to be use in fiscal year 2005 to process claims. Policies and procedures will be incorporated into an updated drawback handbook with automation to follow. Full implementation of ACE is now scheduled for September, 2009.

## **FMFIA Section 4 Material Weaknesses as of September 30, 2005**

**Title:** Federal Financial Management Improvement Act of 1996 (FFMIA) Compliance

**Entities:** Department

**Originally Reported:** FY 2005 (New)

**Target Date:** FY 2007

### **Description:**

The Department is not in compliance with Section 803(a) of the FFMIA which requires each agency to implement and maintain systems that comply substantially with: (a) Federal financial management system requirements, (b) Applicable Federal accounting standards, and (c) The Standard General Ledger (SGL) at the transaction level. This non-compliance was also noted in the Compliance and Other Matters section of the independent auditor's report.

### **Corrective Actions:**

The Department will develop a comprehensive framework to ensure compliance with the requirements of FFMIA: (1) To implement and maintain systems that comply substantially with Section 803(a); (2) To require auditors to report on agency compliance with the three stated requirements as part of financial statement audit reports; and (3) To require a determination, based on the audit report and other information, whether their financial management systems comply with FFMIA. If they do not, to require development of remediation plans which will be filed with OMB.

### **Fiscal Year 2005 Progress:**

The Department has completed the planning, risk and compliance assessment phase of the framework using the GAO Internal Control Management and Evaluation Tool. A self assessment of FFMIA compliance was performed using the results of the Tool as well as other GAO, OIG and IPA audit findings in the areas covered by OMB A-127 and A-130, resulting in a finding of non-compliance. With the receipt of fiscal year 2005 audit findings, the Department will develop a remediation plan to correct specific findings of non-compliance within the Department.

**Title:** Federal Information Security Management Act (FISMA) Compliance (Electronic Government Act of 2002)

**Entities:** Department

**Originally Reported:** FY 2004

**Target Date:** FY 2007

**Description:**

The Department is not in substantial compliance with FISMA that requires each federal agency to develop, document, and implement a department-wide program to provide information security for the data and information systems that support the operations and assets of the agency. Additional significant deficiencies have been found regarding the requirements of the Office of Management and Budget (OMB) Circular A-127 and Circular A-130, that executive agencies within the federal government: (1) Plan for security; (2) Ensure that appropriate officials are assigned security responsibility; (3) Periodically review the security controls in their information systems; and (4) Authorize system processing prior to operations and, periodically, thereafter. This non-compliance was also noted in the Compliance and Other Matters section of the independent auditor's report.

**Corrective Actions:**

Despite several major improvements in the Department's information security program, Department organizational components have not completely aligned their respective information security programs with the Department's overall policies, procedures, and practices. Thus, for example: (1) All Department systems have not been certified and accredited; (2) All organizational components' information security weaknesses are not included in a POA&M; (3) Data in the enterprise management tool, Trusted Agent FISMA, is not complete or current; (4) System contingency plans have not been developed or tested for all systems; and (5) FISMA metrics data, captured within Trusted Agent FISMA and used by the Chief Information Officer (CIO) to monitor component's security programs, is not comprehensively verified. While the Department has issued substantial guidance designed to create and maintain secure systems, we identified areas where agency wide information security procedures require strengthening: (1) certification and accreditation; (2) vulnerability testing and remediation; (3) penetration testing; (4) contingency plan development and testing; (5) incident detection, analysis, and reporting; (6) security configuration; and, (7) specialized security training.

**Fiscal Year 2005 Progress:**

The Chief Information Security Officer (CISO) revised the baseline information technology (IT) security policies and procedures in the Sensitive Systems Policy Publication 4300A and its companion, the Sensitive Systems Handbook 3; and National Security Systems Policy Publication 4300B and its companion, the National Security Systems Handbook 4 to include updated policy on Public Key Infrastructure (PKI), wireless communication and media reuse and disposition. Other changes included mandating that the components ensure that their systems meet the requirements specified in the Department's baseline configuration guides, as well as the acceptable methods for encrypting sensitive information. Additionally, the Department issued the Department of Homeland Security Information Security Program Plan of Action and Milestones (POA&M) Process Guide 5 which provides the depart-

ment and components with the necessary guidance and procedures to develop, maintain, report, and mature the POA&M process. Together, these policies and procedures, if fully implemented by components, should provide the Department with an effective information security program that complies with FISMA requirements.

## Non-Compliance with Laws and Regulations as of September 30, 2005

**Title:** Federal Managers' Financial Integrity Act of 1996 (FMFIA)

**Entities:** USCG, EP&R, ICE, TSA

**Originally Reported:** FY 2004

**Target Date:** FY 2006

### Description:

Management's FMFIA report did not contain corrective action plans for all material weaknesses identified in the PAR. The Department and its components— USCG, EP&R, ICE, and TSA — 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 Section 4.

### Corrective Actions:

The Department has developed and implemented a comprehensive plan to ensure compliance with FMFIA. This includes implementing an internal control program and hierarchy Department-wide; issuing timely policy guidance on FMFIA reporting and adopting the tools to allow for the standardization of FMFIA reporting throughout the organization.

### Fiscal Year 2005 Progress:

A corrective action plan directive and process guide have been drafted and will be adopted fiscal year 2006 Q1. An FMFIA process has been developed to properly and accurately report on internal control, systems security and ensure the reliability of financial reporting throughout the organization. Further guidance has been developed to assure that the Department is in compliance with the provisions of OMB Circular No. A-123.

**Title:** Single Audit Act Amendments of 1996, and Laws and Regulations Supporting OMB Circular No. A-50, Audit Follow-up, as revised

**Entities:** SLGCP, EP&R, TSA

**Originally Reported:** FY 2004

**Target Date:** FY 2006

**Description:**

Although certain procedures have been implemented to monitor grantees and their audit findings, it was noted that EP&R, SLGCP and TSA did not have procedures in place to fully comply with provisions in OMB Circular No. A-133 and No. A-50 that require them to timely obtain and review grantee single audit reports and follow upon questioned costs and other matters identified in these reports.

**Corrective Actions:**

FEMA, SLGCP, and TSA are developing and implementing the policies and procedures needed to create a viable internal control program in line with OMB and GAO standards. SLGCP is creating an Audit Resolution Team to ensure compliance with No. A-133.

**Fiscal Year 2005 Progress:**

FEMA and TSA have completed corrective actions to remediate this weakness but have not verified and validated the correction. SLGCP has delayed implementation of the Audit Resolution Team until the end of fiscal year 2006 Q1 due to delays in the hiring process.

**Title:** Improper Payments Information Act of 2002 (IPIA)

**Entities:** Department

**Originally Reported:** FY 2004

**Target Date:** FY 2005

**Description:**

The Department did not: (1) systematically review and identify all programs susceptible to significant erroneous payments; and (2) test all material programs for improper payments.

**Corrective Actions:**

The Department will expand IPIA program testing from each components largest material program to all material programs. Smaller programs will undergo a qualitative risk assessment to identify any exceptional circumstances. Recovery and internal control audit test work will be used to verify random sample test results.

**Fiscal Year 2005 Progress:**

Department components identified and performed random sample payment testing on their largest IPIA program to determine with statistical certainty whether the program was at high risk for issuing improper payments. No program was assessed as at high risk for issuing improper payments (following OMB's \$10 million and 2.5% criteria). Recovery audits results at ICE and CBP were consistent with component testing.

**Title:** Department of Homeland Security Financial Accountability Act of 2004

**Entities:** Department

**Originally Reported:** FY 2005

**Target Date:** FY 2006

**Description:**

Section 3 states that the President of the United States shall appoint a Chief Financial Officer of the Department of Homeland Security not later than 180 days after the enactment date. Currently, the Department is not complying with Section 3 and the Department's management has not sought a waiver or amendment to the law.

**Corrective Actions:**

Have a Congressionally confirmed CFO appointed by the President.

**Fiscal Year 2005 Progress:**

Not applicable, new finding.

**Title:** Government Performance and Results Act of 1993

**Entities:** Department

**Originally Reported:** FY 2005

**Target Date:** FY 2006

**Description:**

The fiscal year 2006 Department of Homeland Security Annual Performance Plan does not include details related to requisite resources to meet Department goals or a description of the means used to verify and validate performance measure results. The Department has not consistently presented performance measures in the PAR as written in the annual performance plans, has not provided explanations of performance results and does not have supporting documentation substantiating the changes in performance measure goals between the annual performance plan and the PAR.

**Corrective Actions:**

Department management will need to ensure that requisite resource needs are clearly linked by fully described means to performance measures that are validated and verified. Annual performance plans will need to be reviewed to ensure that they contain proper performance result explanations backed by sufficient supporting documentation and that goals are consistent between the annual performance plan and the PAR.

In addition, the Budget and Accounting Procedures Act of 1950, as amended, states that "the head of each covered executive agency shall prepare and submit to the Congress and the Director of the OMB audited financial statements for the preceding fiscal year, covering all accounts and associated activities of each office, bureau, and activity of the agency."

**Fiscal Year 2005 Progress:**

Not applicable, new finding.

## COMPLIANCE WITH LAWS AND REGULATIONS

### **Federal Managers' Financial Integrity Act (FMFIA)**

The FMFIA requires agencies to establish and maintain internal control. Management must annually evaluate and report on the control and financial systems that protect the integrity of Federal programs; Section 2 and Section 4 respectively. The requirements of FMFIA serve as an umbrella under which other reviews, evaluations and audits should be coordinated and considered to support management's assertion about the effectiveness of internal control over operations, financial reporting, and compliance with laws and regulations. The Secretary's Assurance Statement is structured around reporting the results of management's evaluation of Section 2 and Section 4 and the other laws and regulations under its umbrella that are outlined below.

### **Federal Financial Management Improvement Act (FFMIA)**

The FFMIA requires the Department to have financial management systems that substantially comply with the Federal financial management systems requirements, standards promulgated by the Federal Accounting Standards Advisory Board (FASAB) and the U.S. Standard General Ledger (USSGL) at the transaction level. Financial management systems must have general and application controls in place in order to support management decisions by providing timely and reliable data.

Management must make a determination annually about whether the agency's financial management systems are in substantial compliance with the FFMIA. For systems that are found not to be compliant, management will develop a remediation plan to bring those systems into substantial compliance. The agency is reporting fiscal year 2005 non-compliance in the Secretary's Assurance Statement, where it is included with Section 4 of FMFIA.

### **Federal Information Security Management Act (FISMA)**

FISMA permanently reauthorized the framework laid out in the Government Information Security Reform Act of 2000 (GISRA), which expired in November 2002. FISMA continues the annual review and reporting requirements introduced in GISRA. In addition, FISMA includes new provisions aimed at further strengthening the security of the Federal government's information and information systems such as the development of minimum standards for agency systems.

FISMA introduces a statutory definition for information security. The term "information security" means protecting information and information systems from unauthorized access, use, disclosure, disruption, modification, or destruction in order to provide: (A) integrity, which means guarding against improper information modification or destruction, and includes ensuring information non-repudiation and authenticity; and (B) confidentiality, which means preserving authorized restrictions on access and disclosure, including means for protecting personal privacy and proprietary information.

FISMA requires each agency to perform for each system "periodic testing and evaluation of the effectiveness of information security policies, procedures and practices, to be performed with a frequency depending on risk, but no less than annually." This evaluation will include the testing of management, operational and technical controls. The results of the fiscal year 2005 Department of Homeland Security

rity Information Security C&A Remediation Plan is summarized in the following section. Significant deficiencies found under FISMA are reported as material weaknesses under FMFIA Section 4, included in the Secretary's Assurance Statement.

### **Improper Payments Information Act of 2002**

The Improper Payments Information Act (IPIA) of 2002 (P.L. 107-300) requires Federal agencies to carry out a cost-effective program for identifying payment errors and recovering any amounts overpaid. An improper (or erroneous) payment includes any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative or other legally applicable requirement. Incorrect amounts include: overpayments; underpayments (including inappropriate denials of payment or service); any payment made to an ineligible recipient or for an ineligible service; duplicate payments; payments for services not received; and payments that do not account for applicable discounts.

To comply with IPIA requirements and related guidance from OMB, the agency carried out the next phase of a plan begun in fiscal year 2004, to reduce its susceptibility to issuing improper payments. In fiscal year 2004, the agency completed a risk assessment of major programs. This risk assessment did not identify any programs as high risk for issuing improper payments. In fiscal year 2005, each component completed statistically significant testing of payments from their largest program (with the exception of EP&R, which tested its second largest program highlighted in an improper payment-related OIG finding). All major payment types within the largest program were sampled. Estimated error rates and amounts were calculated. As in fiscal year 2004, no program was found to exceed the OMB defined high-risk standards of \$10 million and 2.5 percent.

In fiscal year 2005, the Department commenced recovery audit efforts at CBP and ICE that have, to date, identified more than \$2.2 million in erroneous payments and recovered more than \$1.8 million. Additional IPIA information can be found in Other Accompanying Information in Section III of the Performance and Accountability Report.

### **Government Performance and Results Act (GPRA)**

To support results-oriented management, GPRA requires that the Department develop strategic plans, set performance goals, and report annually on actual performance compared to goals. These plans and goals are integrated into (i) the budget process, (ii) the operational management of agencies and programs, and (iii) accountability reporting to the public on performance results, and on the integrity, efficiency, and effectiveness with which they are achieved. Similarly, the Program Assessment Rating Tool's (PART) primary purpose is to assess program effectiveness and improve program performance. The PART has also become an integral part of the budget process when making funding resource allocations or decisions.

Performance results are reported in Section II of the PAR, and the Secretary's Assurance Statement asserts to the completeness and accuracy of performance data.

### **Chief Financial Officers Act, as amended (CFO Act)**

The passage of the Department of Homeland Security Financial Accountability Act in fiscal year 2005 made the Department of Homeland Security a CFO Act agency. The CFO Act requires agencies to both establish and assess internal control related to financial reporting. The Act requires the preparation and audit of financial statements. In this process, auditors report on internal control and compliance with laws and regulations related to financial reporting. This Performance and Accountability Report is structured and presented to comply with the CFO Act.

### **Inspector General Act of 1978, as amended (IG Act)**

The IG Act provides for independent reviews of agency programs and operations. The annual CFO audit of the Department's financial statements included in this report and the opinion rendered by KPMG fulfills the IG requirements under the Government Auditing Standards and OMB Bulletin No. 01-02, Audit Requirements of Federal Financial Statements, as amended. In particular, to report material weaknesses in internal control related to financial reporting and noncompliance with laws and regulations as part of the financial statement audit. Auditors also provide recommendations for correcting the material weaknesses. Management is required by the IG Act to follow up on audit recommendations and has used these reviews to identify and correct problems resulting from inadequate or poorly designed controls, and to build appropriate controls into the Department's programs.

### **Single Audit Act, as amended**

The Single Audit Act, as amended, requires financial statement audits of non-Federal entities that receive or administer grant awards of Federal monies. The financial statement audits include testing the effectiveness of internal control and determining whether the award monies have been spent in compliance with laws and regulations. The Department provides a number of grant programs that are reflected in the Performance and Accountability Report. It is management's responsibility to review the audits of the recipients to determine whether corrective actions are implemented with respect to audit findings.

### **Clinger-Cohen Act of 1996**

The Clinger-Cohen Act requires agencies to use a disciplined capital planning and investment control (CPIC) process to maximize the value of and assess and manage the risks of IT acquisitions. The Act requires that agencies establish goals for improving the efficiency and effectiveness of agency operations and, as appropriate, the delivery of services to the public. The MD&A, Section I, and the Performance Information included in Section II reflect the Agency's compliance with the requirements of this Act.

## **COMPLIANCE WITH OTHER KEY LEGAL AND FINANCIAL REGULATORY REQUIREMENTS**

The Department is required to comply with several other key legal and regulatory financial requirements, including the Prompt Payment Act and the Debt Collection Improvement Act.

### **Prompt Payment Act**

The Prompt Payment Act requires Federal agencies to make timely payments (within 30 days of receipt of invoice) to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts only when they are economically justified. The Department's components submit Prompt Payment data as part of data gathered for the CFO Council's Measurement Tracking System (MTS). Periodic reviews are conducted by the components to identify potential problems. Interest penalties as a percentage of the dollar amount of invoices paid subject to the Prompt Payment Act has remained below 0.1 percent throughout the July 2004 – July 2005 period that the statistics have been kept (MTS statistics are reported with a two-month lag).

### **Debt Collection Improvement Act (DCIA)**

The Department complies with the Debt Collection Improvement Act (DCIA) and its key provisions of turning over all eligible debt to the Treasury Offset Program (TOP) for collection, timely notification to the Internal Revenue Service on Form 1099C of any discharged or closed out debt, accurately reporting debt statistics in Treasury's Report on Receivables (TROR) system, certifying and explaining any discrepancies between TROR and debt-related standard general ledger account balances, aggressively servicing and collecting delinquent debts, and denying direct and indirect loans to delinquent debtors. The Department also complies with a Debt Collection Improvement Act annual reporting requirement to OMB. The Department supported a 180-day moratorium on the collection of debts in the Gulf Coast region that the Treasury Department offered to all Federal agencies in the aftermath of Hurricane Katrina.

### **Biennial Review of Fees**

The CFO Act of 1990 requires biennial reviews by Federal agencies of agency fees, rents, and other charges imposed for services and things of value provided to specific beneficiaries, as opposed to the American public in general. The objective of these reviews is to identify such activities and begin charging fees, if permitted by law, and to periodically adjust existing fees to reflect current costs or market value. These updated fees minimize the general taxpayer subsidy of specialized services or things of value (such as rights or privileges) provided directly to identifiable non-Federal beneficiaries. The Department did not become subject to the CFO Act of 1990 provisions until fiscal year 2005 (with the passage of the Department of Homeland Security Financial Accountability Act). The Department did not conduct a biennial review of its user fee programs during fiscal year 2005.

## **MANAGEMENT PLANS**

### **Department of Homeland Security Information Security C&A Remediation Plan (FISMA)**

The House Appropriations Committee (HAC) Report 109-079, Department of Homeland Security 2006 Appropriations Bill, directed the "Department's CIO to develop a plan to address the weaknesses in DHS' information security" by October 1, 2005. In addition, the Office of the Inspector General (OIG) was directed to review the plan and report back to the committee by the end of November 2005. The committee report identified four weaknesses in the information security program. The Department has completed actions to fully address one of the weaknesses - the lack of a complete and accurate inventory.

The Department of Homeland Security Certification and Accreditation (C&A) Remediation Plan outlines how the Department will meet its goal of 100 percent C&A of all IT systems by the end of fiscal year 2006. The objective of the plan is to provide agency-wide information security procedures to report on the progress of the C&A efforts within the Department. In addition, this plan explicitly addresses the three remaining weaknesses identified in the HAC Report.

The Department's C&A Tool will be used to complete all C&As. The C&A Tool imposes a standardized process and will result in FISMA-compliant products. Testing of contingency plans is incorporated into the Department's C&A process. Contractor systems are included in the comprehensive inventory completed in fiscal year 2005. The plan uses the processes and Federal Information Security Management Act (FISMA) reporting and C&A tools implemented by the Office of the Chief Information Officer (CIO) and the Chief Information Security Officer (CISO) in fiscal year 2005. The remediation plan outlines how the components will not only be able to identify the C&A activities and documentation that they are required to complete, but also how C&A remediation scores will be calculated and measured at the departmental-level.

## REMIEDIATION PLAN SUMMARY

	Remediation Deliverables	Weights	Cum.
1	FIPS 199 Categorization Completed	5%	5%
2	Privacy Impact Determination/Assessment	3%	8%
3	E-Authentication Determination/Assessment	2%	10%
4	Risk Assessment	10%	20%
5	System Security Plan	20%	40%
6	Contingency Plan	10%	50%
7	Contingency Plan Test Results	5%	55%
8	Security Test & Evaluation Plan	10%	65%
9	Security Assessment Report	15%	80%
10	ATO Letter	10%	90%
11	Annual Self Assessment	10%	100%

This remediation plan applies an earned-value management approach by identifying 11 C&A artifacts that must be completed for every Department IT system. The above table summarizes the deliverables and the weightings to be assigned to the deliverables that will be used to develop the C&A remediation score.

Credit will only be given for artifacts (e.g., Privacy Impact Assessment [PIA], and System Security Plan [SSP]) if the actual artifact is uploaded into TrustedAgent FISMA (TAF), the Department's FISMA reporting tool. Visibility of all artifacts at the Department level, while also ensuring that artifacts are fully aligned with the inventory, is critical to the Department's ability to track progress during the next year.

Each component must establish objectives and milestones, and closely monitor progress to ensure success. Each component CIO was required to submit a fiscal year 2006 Remediation Plan to the Department's CISO during October 2005. In addition, a POA&M must be developed for all unaccredited systems and entered into the FISMA reporting tool.

The Department established the following interim performances objectives to ensure progress.

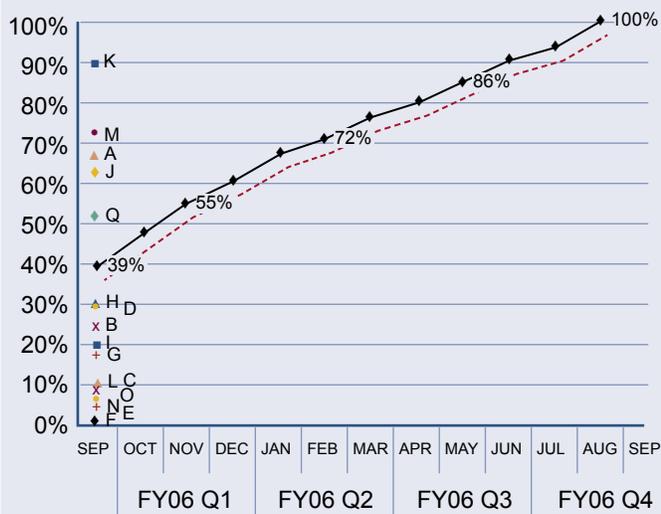
## PERFORMANCE OBJECTIVES

FY 2006 Quarter	C&A Completion Objective
Ending Qtr 1	55%
Ending Qtr 2	72%
Ending Qtr 3	86%
Ending Qtr 4	100%

## ACCOUNTABILITY

A detailed remediation status report by component will be delivered monthly to the component CIO and Information System Security Manager (ISSM). Status reports highlight the overall progress against departmental and component objectives for the remediation effort. At a minimum, the status reports will consist of the sample diagrams below.

## REMEDIATION PROGRESS BY COMPONENT



### DHS MONTH X PERFORMANCE

Component	Systems	Goal	Actual	Gap	Trend
A	40	39%	68%	29%	
B	100	39%	24%	-15%	
C	5	39%	10%	-29%	
D	70	39%	35%	-4%	
E	10	39%	4%	-35%	
F	1	39%	0%	-39%	
G	30	39%	16%	-23%	
H	130	39%	35%	-4%	
I	20	39%	18%	-21%	
J	10	39%	63%	24%	
K	5	39%	90%	51%	
L	10	39%	10%	-29%	
M	10	39%	73%	34%	
N	70	39%	5%	-34%	
O	200	39%	7%	-32%	
P	40	39%	6%	-33%	
Q	15	39%	51%	12%	
<b>DHS Overall</b>	<b>766</b>	<b>39%</b>	<b>23%</b>	<b>-16%</b>	

- Greater than or equal to +5% of Performance
- Within +5% of Performance goal
- Within -5% of Performance goal
- Less than or equal to -5% of Performance

### SUMMARY

The Department submitted the required information security C&A remediation plan to the OIG on September 30, 2005, to address the three remaining weaknesses outlined in the House Appropriations Committee Report 109-079. The approach detailed in this remediation plan, if implemented and centrally managed, will result in an improved security posture for the Department in fiscal year 2006, one that has all its systems accredited. To continue to improve the security posture, the fiscal year 2007 strategy will be to improve performance, resolve security deficiencies, and perform more independent verification to identify vulnerabilities and weaknesses associated with the component's security practices.

## FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

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**D**epartment-wide Initiatives: In August 2003, the Department initiated plans to provide solutions for its financial management needs by establishing the Resource Management Transformation Office (RMTO) under the Office of the CFO. The RMTO initiated the financial enterprise solution project known as "Electronically Managing Enterprise Resources for Government Effectiveness and Efficiency" (eMerge2). The eMerge2 program sets the strategic direction for migration, modernization and integration of departmental financial, accounting, procurement, grants, asset management, and travel systems. In fiscal year 2005, with the vision and requirements of the program firmly established, the program began experiencing difficulties in the integration of the system components. The Department took a strategic pause in the program to evaluate solution options: 1) outsourcing the solution to the private sector, 2) outsourcing to one of the recently established government Centers of Excellence (COE) or 3) revisiting current financial service providers within the Department while still exploring the feasibility of building the Commercial Off-The-Shelf (COTS) integrated solution.

The Office of the CFO has adopted an approach to the enterprise solution that will focus on three phases:

- Consolidate systems/service providers and address material weaknesses;
- Implement corporate unifying features (integration capabilities); and
- Optimize environment to achieve efficiencies and effectiveness.

While the methodology for achieving the eMerge2 vision has changed, the Department's financial management vision and requirements remain unchanged.

**CBP:** In October 2004, CBP implemented the last of three major releases of SAP, an Enterprise Resource Planning (ERP) system. SAP replaced numerous legacy financial, procurement and property systems with a single fully integrated solution. This system gives CBP a state-of-the-art, fully integrated system in which to plan, acquire, track and fully account for all purchases and assets as well as track budgets and provide management with timely and accurate financial reports. The post-SAP implementation period has proved challenging for CBP. Reorganizations among the Department's elements that continue to expand our size and structure, as well as a continuous desire to add to or improve upon this new functionality, have thwarted efforts to focus on stabilization of the SAP system. SAP brings forth an entirely new technology and operating environment. Business processes have been changed or eliminated to add value to the investment and CBP itself. SAP processes transactions and provides reporting capability in less time than previously performed by 11 legacy applications. All reorganizations have been accomplished without issue, and SAP users have received training to enable them to adapt their processes to match the benefits of the system.

The future holds many prospects for expanding and improving the SAP system at CBP. Several legacy asset management-related systems still exist within CBP's enterprise architecture. Many of these are good candidates for integration into SAP and will be replaced. New systems being planned for and developed will need to be interfaced including the CBP future eTravel system and the many solutions sure to be born out of the eMerge2 effort. These plans cannot exclude continued efforts to build on the

momentum the Customs Modernization Office has created in developing SAP as a core system for the Automated Customs Environment (ACE). Many successes have been realized by the implementation of SAP at CBP, and it is plain to see that there are many more tasks to be accomplished. All of these tasks will be completed as efficiently and timely as they have in the past in order to continue to enable the CBP frontline to accomplish their goals of fighting terrorism and safeguarding the American homeland.

**FLETC:** In May 2005, FLETC implemented e-Travel and became the first component within the Department to use FedTraveler.com, a web-based end-to-end online system of processing and booking of temporary duty (TDY) travel. During the early stages of the e-Travel implementation, FLETC identified more than 150 system issues and software glitches related to document processing, online booking of airline and hotel reservations, customer support, etc. Coordinating aggressively with the contractor to resolve the issues, FLETC re-engineered its TDY travel business processes and progressively took advantage of the e-Travel automated processing features. During fiscal year 2005, approximately 2,000 Travel Plans and Expense Reports for FLETC staff were processed through FedTraveler.com.

FLETC uses the Momentum Financial System for its financial management services. This system has served FLETC well over the past five years, contributing to three consecutive unqualified opinions prior to the transfer to the Department of Homeland Security and continued clean annual financial audits. While the current Momentum financial management software is adequate, FLETC is looking to fully take advantage of advances in technology and upgrade its five-year-old integrated core financial management software. FLETC is considering all financial management software options and is seeking the optimum solution for all FLETC and Department of Homeland Security financial management requirements.

FLETC also upgraded its Electronic Certification System for automated disbursement schedules transmitted to the servicing Department of Treasury finance center to the Financial Management System SPS in August 2005. Besides being Section 508-compliant, the SPS incorporates PKI, a secure means of transmitting data through the Internet through the use of a public and private cryptographic key pairing. Because of the SPS thin-client application that allows easy file transfer, FLETC can now confirm disbursing schedules within one day and promptly post the payment data in the financial management system, which enhances fund balance reconciliation and customer service on payment queries.

**U.S. Secret Service:** In October 2004, the USSS implemented a new Joint Financial Management Improvement Program (JFMIP) certified core financial management system, Oracle Federal Financials, as well as new administrative systems to support property management (Sunflower Asset Management), procurement management (Compusearch PRISM) and inventory management (Oracle Inventory). The software solution implemented includes integration between the new software components, as well as interfaces with other internal and external administrative systems (Master Personnel System, Gelco Travel Manager, NFC Payroll, Gelco Third Party Draft, Purchase Card Provider). In addition, the solution also includes extensions to support unique business processes at USSS, such as imprest/confidential fund accountability and replenishment business processes. This major implementation effort was completed in approximately 3 1/2 years, which included the requirements definition phase, software selection phase, systems integrator selection phase, and software configuration/development and implementation phase. Implementation efforts of this complexity and magnitude at Federal

agencies often take a much longer period of time to complete, and in some instances, the projects are cancelled after several years of effort.

Fiscal year 2005 was successfully closed in mid-October 2005, which marked the anniversary of implementing the new financial management system. The first year of using the new system brought several challenges due to the business process changes and the large number of users in the field entering financial transactions. In addition, the system was implemented during a time at USSS when there was an unusually large volume of financial transactions that needed to be recorded in the new system (e.g., hotel invoices related to 2004 presidential campaign activities). Several enhancements were implemented during the year, including custom front-end screens to provide a more user-friendly mechanism for the field users to record financial transactions. Additional enhancements are planned this year, particularly in the areas of analyzing and reconciling financial transactions and providing reports to the offices to manage allocations.

**Coast Guard:** At the beginning of fiscal year 2005, the USCG began cross-servicing TSA and FAMS on the USCG Core Accounting System (CAS). CAS is: seven modules of the Oracle Financials (core accounting functionality); FPD (the simplified acquisition tool); Contract Information Management System (CIMS), CompuSearch PRISM (product for management of large contracts); Sunflower (property management) and Markview (170 Systems for invoice imaging). USCG also provided TSA the ability to perform automated agency-wide physical inventory of all its property. This functionality is fully integrated with Sunflower.

The USCG continued its roll-out of additional real-time integration between system components. This integration uses a Service Oriented Architecture approach using web services in real time. In addition, the USCG introduced the capability for accrual-based accounting into the core accounting system. This capability was implemented using a web-based receipts module, which TSA now uses. USCG also introduced the ability to apply multiple accounting lines to a single line item in FPD. FPD To Go, the disconnected environment version of FPD, was deployed to nine cutters throughout the fiscal year. CIMS was fully deployed to the Pacific Area. Furthermore, USCG began the initiative to move to LINUX-based hardware architecture. In August 2005, USCG successfully transitioned USCG, TSA and FAMS payroll processing function from the Department of Transportation (DOT) to the U.S. Department of Agriculture's National Finance Center (NFC). This integration ensures that payroll costs are accurately accounted for in the general ledger.

In 2006, USCG will continue with its migration to a LINUX-based hardware architecture and Real Applications Cluster (RAC) technology. USCG has begun the e-Travel initiative to move USCG, TSA and FAMS to a centralized travel system and have it integrated in real time with CAS. USCG also selected and procured a centralized reporting tool (Informatica) to be rolled out throughout fiscal year 2006. Additionally, USCG will continue with its FPD To Go and CIMS migrations. Inclusive of this effort is migrating Deepwater to both CIMS and FPD. USCG will continue to look at moving to a single system process for USCG, TSA and FAMS and eliminating general ledgers outside of the core accounting system.

**TSA:** At the beginning of fiscal year 2005, TSA migrated its financial management operations from the DOT financial systems environment to the USCG financial systems environment. USCG's suite of financial systems includes the Core Accounting System (Oracle Federal Financials 11.5.9), the Finance and Procurement Desktop (a front-end tool that enables program and field office personnel to execute

requisitions and track spending online), the Markview invoice imaging and routing system, and the Sunflower Asset Management System. At the same time, TSA migrated its outsourced accounting operations (payment and collection processing) from DOT's Finance Center to the USCG Finance Center in Chesapeake, Virginia. The migration has reduced the Department's dependency on an external department, brought the financial management activities of two of the Department's largest components under one roof, and is expected to generate economies of scale as both TSA and USCG will realize benefits from future investments in system upgrades.

Following on the successful financial systems transition, TSA migrated its payroll processing function from DOT to the NFC systems in August 2005. This transition will put TSA on the same payroll platform as all other departmental components and will result in more efficient payroll services for TSA employees. An interface from NFC to the Core Accounting System has been developed, tested and implemented to ensure that payroll costs are accurately accounted for in the general ledger.

TSA's efforts to improve financial management and systems will continue in fiscal year 2006. Early in the fiscal year, an automated contract-writing system will be deployed to replace the current manual contract writing process. In addition to easing the administrative burden of developing government contracts, the system will interface with the Core Accounting System to liquidate commitments and post obligations; processes that currently require manual data entry. Later in fiscal year 2006, TSA will begin its efforts to migrate from its legacy travel management system to the Department's eTravel solution. eTravel will allow TSA travelers to make reservations, request authorization, and submit subsequent travel vouchers from a single online system.

**ICE:** In order to offload the heavy reporting volume from the Federal Financial Management System (FFMS) ICE production database and to provide end users with a faster turn around time in obtaining requested reports, ICE created an FFMS reporting database that is a mirror image of the ICE production database. The data is updated every two hours. The reporting database is used primarily to run existing FFMS reports. Users have reported excellent response times and extreme confidence in the accuracy of the reporting data. This database enables program managers to obtain necessary financial information in a timely manner and in a user friendly format through enhanced reporting capabilities. Transferring the bulk of reporting to the reporting database allowed transaction processing to continue in the production database unheeded. Both reporting and transactional processing were greatly improved over the previous end of year.

In October 2004, ICE implemented PRISM, the Department's procurement system of choice. PRISM minimizes data entry and maximizes process efficiency through electronic routing and workload management. Since its implementation, ICE has recognized the advantage of having an electronic interface between PRISM and the FFMS. An interface will significantly improve ICE's financial management capabilities by eliminating the manual reconciliation of financial data in both systems. Additionally, it will automate the input of financial information and eliminate the double entry of financial data into both systems. ICE is moving forward to develop and implement the interface in fiscal year 2006. Once in place, ICE can eliminate the commitment accounting reconciliation process and also directly obligate procurement actions when appropriate. The implementation of the PRISM/FFMS interface is eagerly anticipated and represents a major milestone in ICE's efforts to streamline and automate its business processes and improve overall financial management.

## Analysis of Financial Statements

**T**hese financial statements are prepared in accordance with established Federal accounting standards and are audited by the independent accounting firm of KPMG LLP. It is the Department's goal to improve financial management and to provide accurate and reliable information that is useful for assessing performance and allocating resources.

**Figure 1** illustrates a condensed version of the Department's Consolidated Balance Sheet.

### Condensed Consolidated Balance Sheet As of September 30, 2005 and 2004 (In Millions)

<b>ASSETS</b>	<b>FY 2005</b>	<b>FY 2004</b>	<b>Change</b>
Intragovernmental Assets	101,040	38,428	\$62,612
Tax, Duties and Trade Receivables, Net	1,400	1,273	127
General Property, Plant and Equipment, Net	10,470	9,746	724
Other	1,596	1,359	237
<b>Total Assets</b>	<b>114,506</b>	<b>50,806</b>	<b>63,700</b>
<b>LIABILITIES</b>			
Intragovernmental Liabilities	3,158	2,731	427
Claims and Claims settlement Liabilities	23,433	1,417	22,016
Accrued Payroll and Benefits	2,845	2,692	153
Military Service and Other Retirement Benefits	29,021	26,502	2,519
Other	11,288	8,977	2,311
<b>Total Liabilities (Note 12)</b>	<b>69,745</b>	<b>42,319</b>	<b>27,426</b>
<b>Net Position</b>			
Unexpended Appropriations	87,166	25,504	61,662
Cumulative Results of Operations	(42,405)	(17,017)	(25,388)
<b>Total Net Position</b>	<b>44,761</b>	<b>8,487</b>	<b>36,274</b>
<b>Total Liabilities and Net Position</b>	<b>114,506</b>	<b>50,806</b>	<b>63,700</b>

## ASSETS

In fiscal year 2005, the Department's assets totaled \$114,506 million. This is an increase of \$63,700 million over the prior year's assets totaling \$50,806 million. Intragovernmental Assets are primarily the Fund Balance with Treasury and Advances and Prepayments. Intragovernmental Assets and General Property, Plant, and Equipment comprise 97 percent of total assets. The largest increase to assets relates appropriations for Gulf Coast hurricane disaster relief funding. **Figure 2** summarizes the Department's assets as of September 30, 2005 and September 30, 2004.

The increase in Intragovernmental Assets is primarily due to an increase in the Fund Balance with Treasury from Appropriated Funds that represents \$97,004 or 96 percent of the total. A portion of the Fund Balance with Treasury also includes Trust Funds, used to hold receipts for specific purposes; Revolving Funds, Liquidating and Working Capital Funds, used for continuing cycles of business-like activity; Special Funds, earmarked for specific purposes and Deposit Funds, amounts received as advances for which final disposition has not been determined. General Property, Plant and Equipment are primarily composed of aircraft, vessels, vehicles, land, structures, facilities, leasehold improvements, software, information technology, and other equipment that are used for general operations. Multi-use heritage assets consist primarily of buildings and structures owned by CBP and USCG.

FIGURE 2 - ASSETS

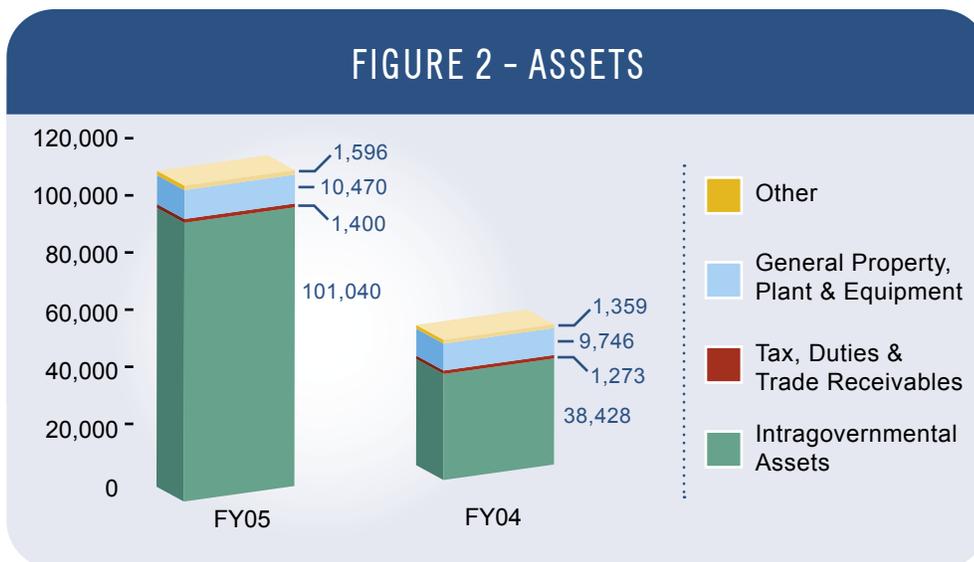
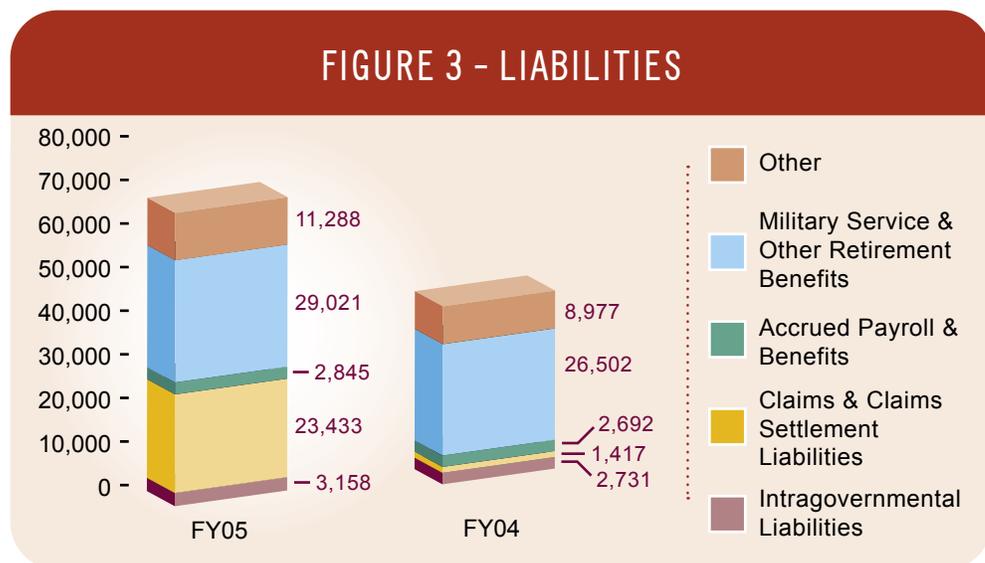


FIGURE 3 - LIABILITIES



## LIABILITIES

In fiscal year 2005, the Department's liabilities totaled \$69,745 million. This is an increase of \$27,426 million over the prior year's liabilities, which totaled \$42,319 million. Intragovernmental Liabilities is primarily debt to the U.S. Treasury and advances and deferred revenue.

Claims and Claims Settlement Liabilities (related to the National Flood Insurance Program claims) and Military Service and Other Retirement Benefits (arising from USCG personnel benefits) comprise 75 percent of the Department's total liabilities. Figure 3 summarizes the Department's liabilities as of September 30, 2005, and September 30, 2004.

Federal agencies by law cannot disburse money unless Congress has appropriated funds. Funded liabilities are expected to be paid from funds currently available to the Department. The Department's unfunded liabilities consist primarily of environmental and legal contingent liabilities and unfunded employee compensation costs, including FECA and annual leave. These liabilities will be paid from funds made available to the Department in future years. The associated expense is recognized in the period in which the liability is established, regardless of budgetary funding considerations.

## ENDING NET POSITION

The Department's net position at the end of fiscal year 2005, disclosed in the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position was \$44,761 million, an increase of about \$36,274 million from the previous year.

The net position of the Department consists of two components (1) Unexpended Appropriations of \$87,166 million and (2) Cumulative Results of Operations of (\$42,405) million. The growth in Unexpended Appropriations is primarily attributable to the increase in unexpended appropriations for Gulf Coast hurricane relief.

## RESULTS OF OPERATIONS

The Department's net cost of operations for fiscal year 2005 was \$66,405 million. This is an increase of \$33,277 million from the previous year's net cost of \$33,128 million. Most increase costs incurred by the Department for fiscal year 2005 are directly related to EP&R (FEMA) disaster relief efforts. The Department of Homeland Security Strategic Plan outlines the following mission goals: Awareness, Prevention, Protection, Response, Recovery, Service and Organizational Excellence. EP&R (FEMA) Costs by Strategic Goals (Protection, Response and Recovery) represent 57 percent of the Department's total net cost of operations.

**Figure 4** illustrates a condensed version of the Department's Statement of Net Cost.

**Condensed Consolidated Statement of Net Costs  
For the Years Ended September 30, 2005 and 2004  
(In Millions)**

	<u>2005</u>	<u>2,004</u>	<u>Change</u>
<b>Cost by Directorate and Component</b>			
Border Transportation Security	14,367	13,741	626
Emergency Preparedness and Response	37,627	5,988	31,639
Information Analysis and Infrastructure Protection	652	497	155
Science and Technology	731	755	(24)
United States Coast Guard	9,369	8,160	1,209
United States Secret Service	1,483	1,368	115
United States Citizenship and Immigration Services	-331	448	(779)
Departmental Operations and Others	2,507	2,171	336
<b>Net Cost of Operations</b>	<u>66,405</u>	<u>33,128</u>	<u>33,277</u>
Total Cost	74,018	39,448	34,570
Cost of Transferred Operation	0	98	(98)
Total Revenue	<u>7,613</u>	<u>6,418</u>	<u>1,195</u>
<b>Net Cost of Operations</b>	<u>66,405</u>	<u>33,128</u>	<u>33,277</u>

## REVENUES

During fiscal year 2005, the Department earned approximately \$7,613 million in revenues; this is an increase of about \$1,195 million from September 30, 2004. The increase in revenue is due primarily to an increase in exchange revenue by BTS.

The Department classifies revenues as either exchange or non-exchange revenue. Exchange revenues are those that derive from transactions in which both the government and the other party receive value, and that are directly related to departmental operations. The Department also collects non-exchange duties taxes and fee revenues on behalf of the Federal government. These are presented in the Statement of Custodial Activity rather than the Statement of Net Cost.

Examples of non-exchange revenues are monies that the Federal government collects as a result of its sovereign powers rather than as a result of providing goods or service for a fee. Donations to the Department are also reported as non-exchange revenues. Non-exchange revenues earned are either retained by the Department to further its mission or returned to the General Fund of the Treasury.

## CUSTODIAL ACTIVITY

In accordance with Federal accounting standards, revenues are presented in the Department's Statement of Custodial Activity since the collections are considered to be revenue of the Federal government as a whole rather than the Department. Revenues were \$27,580 and \$24,449 million as of September 30, 2005 and 2004, respectively, and include duties, user fees and excise taxes.

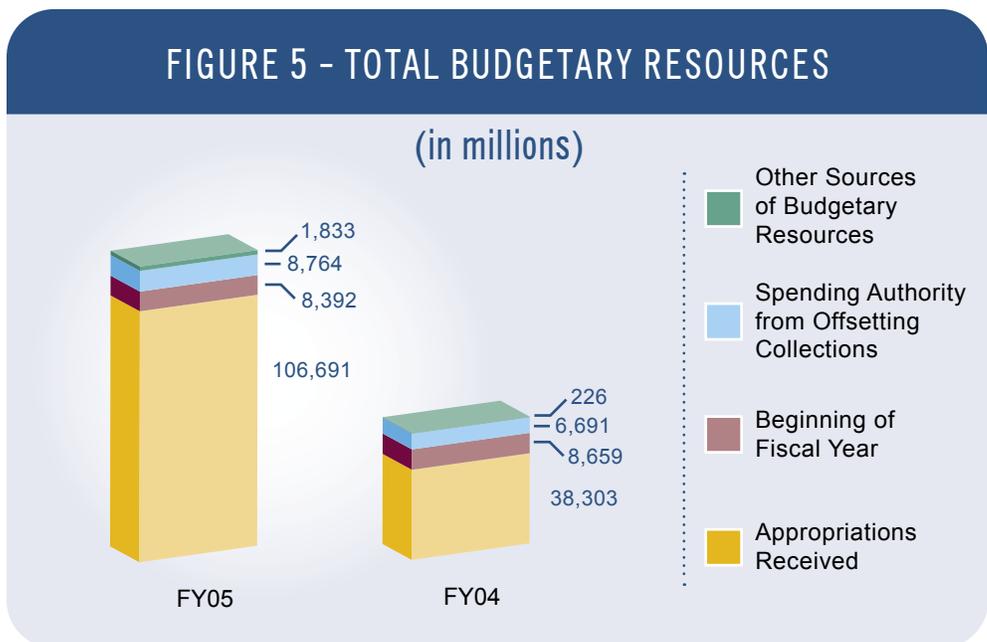
## BUDGETARY RESOURCES

The Department receives most of its funding from general government funds administered by the U.S. Treasury and appropriated for the Department's use by Congress. These resources consist of the balance at the beginning of the year, appropriations received during the year, and spending authority from offsetting collections as well as other sources of budgetary resources (Figure 5).

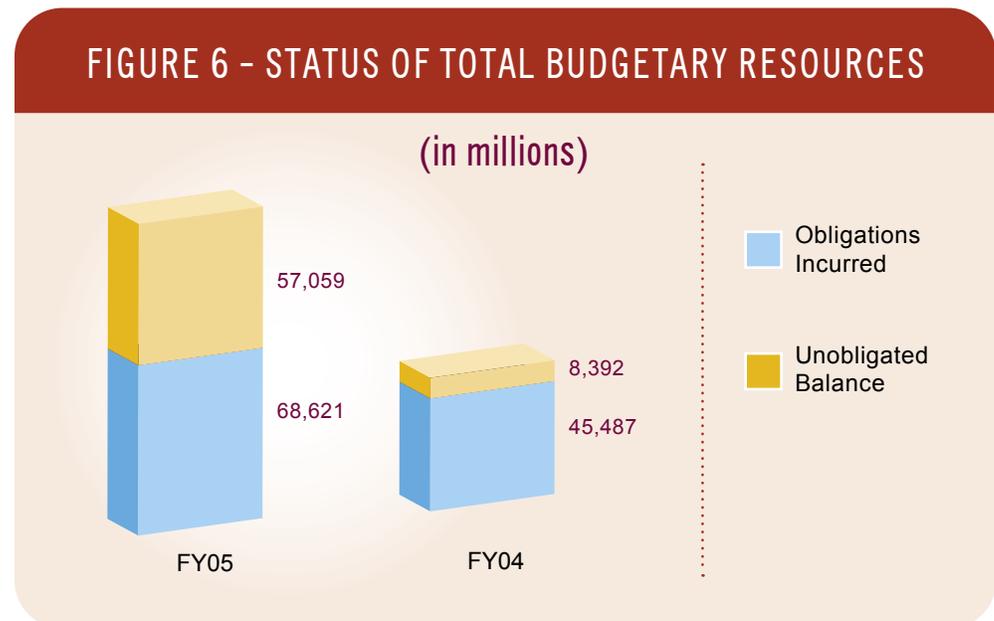
The Combined Statement of Budgetary Resources provides information on the budgetary resources that were made available to the Department for the year and the status of those resources at the end of the fiscal year. Obligations of \$68,621 and \$45,487 million were incurred as of September 30, 2005 and 2004 on total

budgetary resources of \$125,680 and \$53,879 million, respectively (Figure 6). The Combined Statement of Budgetary Resources is presented on a combined basis rather than a consolidated basis for consistency with budget execution information and to properly report obligations incurred by the entire Department.

### FIGURE 5 - TOTAL BUDGETARY RESOURCES



### FIGURE 6 - STATUS OF TOTAL BUDGETARY RESOURCES



Office of Inspector General

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



October 25, 2005

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

Since its inception in March 2003, 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.

We identified "major management challenges" facing the Department, as discussed below. These challenges are a major factor in setting our priorities for audits, inspections, and evaluations of DHS programs and operations. As required by the Reports Consolidation Act of 2000, we update our assessment of management challenges annually.

### **DISASTER RESPONSE AND RECOVERY**

On August 29, 2005, Hurricane Katrina hit the Gulf Coast states of Louisiana, Mississippi, Alabama, and Florida, causing catastrophic damage to the region. By September 9, 2005, the Congress had passed legislation that provided \$63 billion for disaster relief, the bulk of which went to the Federal Emergency Management Agency (FEMA). FEMA, in turn, tasked other federal departments and agencies through Mission Assignments and grants to affected states to assist with recovery efforts. Initial FEMA mission assignments totaled about \$7 billion, over \$6 billion of which went to the Department of Defense (DOD) and the Army Corps of Engineers; and FEMA grants to affected states totaled about \$1 billion. In addition, some departments and agencies, including DOD, received direct appropriations for Hurricane Katrina activities. On September 24, 2005, Hurricane Rita brought further destruction to the Gulf Coast states of Louisiana and Texas. This further compounded FEMA's already overburdened resources and infrastructure. Some estimate that the total federal response and recovery cost could reach \$200 billion and more.

Based on our work related to prior emergency response efforts, we have raised concerns regarding weaknesses in FEMA information systems, the flood map modernization program, contract management, grants management, and the individual assistance program. When one considers that FEMA's programs are largely administered through grants and contracts, the circumstances created by Hurricanes Katrina and Rita provides an unprecedented opportunity for fraud, waste, and abuse.

While DHS is taking several steps to manage and control spending under Katrina, the sheer size of the response and recovery efforts will create an unprecedented need for oversight. We are overseeing the funds being spent directly by DHS components, and the OIGs of 12 other departments and agencies are overseeing their respective agencies' expenditures related to Katrina, which account for about 99 percent of the funds obligated to date for FEMA disaster response and recovery efforts. During the current response phase, the primary focus of the OIGs is on contracts, particularly those awarded with no or limited competition. In addition, we are conducting an evaluation to determine the overall adequacy of DHS' emergency management program for major natural disasters, i.e., how well FEMA carried out its disaster management responsibilities in response to Hurricanes Katrina and Rita.

Further, FEMA could benefit from improving the information technology systems it uses to both mitigate risk and respond to emergency incidents. For example, floods are among the most frequent and costly of all natural disasters and have great impact in terms of economic and human losses each year. FEMA has embarked on a six-year, \$1.475 billion flood map modernization program to digitize flood maps used to identify flood zones and determine insurance requirements. The current maps are paper-based, outdated, inaccurate, and inadequate. Although FEMA is making progress in the program, its Multi-Year Flood Hazard Plan does not effectively address user and funding needs, and current policies, agreements, and information sharing mechanisms do not effectively support coordination and cooperation among mapping stakeholders.

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

Integrating its many separate components in 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. Further, in 2005, the Secretary initiated an internal top-to-bottom review of the Department, referred to as the Second Stage Review (2SR). The review resulted in changes to DHS organization structure. Those changes resulted in a DHS that was re-focused on risk and consequence management and further involved with its partners in other Federal agencies, state and local governments, and private sector organizations. However, much remains to be done.

For example, we reviewed and reported on a proposal to merge the Customs and Border Protection and Immigration and Customs Enforcement components within DHS. Our report, which will be issued shortly, identifies a number of significant concerns that need to be addressed, with or without a merger. In addition, as reported herein and in previous Management Challenges reports, we continue to have concerns about the Department's "dual accountability" structure for managing its business functions, particularly as related to the Chief Information Officer, Chief Financial Officer, and Chief Procurement Officer.

## CONTRACT MANAGEMENT

DHS procured approximately \$9.8 billion in goods and services during FY 2004 through the award of contracts, modifications, delivery orders, interagency agreements, and purchase card transactions. During the course of FY 2005 exclusive of Hurricane Katrina procurement actions, we identified a number of issues related to the challenge of building an effective contract and acquisition management infrastructure for this level of procurement activity. Those issues included the following:

- DHS needs to ensure adherence to required standards of conduct, i.e., the avoidance of improper business practices and conflicts of interest. While DHS' close relationship with the private sector may yield benefits for DHS, it also increases the potential for conflicts of interest. As noted above, we will be reviewing all Katrina related contracts awarded without competition.
- While some DHS organizational components have reported establishing program management processes within their components, currently no DHS organization is responsible for establishing Department-wide policies and procedures for program management operations. This function is critical, given the numerous, complex, mission-critical programs underway that are managed by DHS components. In May 2004, DHS instituted a program management certification process which requires increasing levels of program management certification (Levels I – III) based on varying levels of training and experience. However, some DHS organizational components still report a shortage of certified program managers to manage the Department's 110 major programs.
- DHS needs to institute several improvements to their Investment Review Board (IRB) process. For example, the DHS IRB process lacks detailed Departmental reviews, which provide decision makers with advice from functional experts, such as operational test evaluators and independent cost estimators. Also, the DHS IRB process emphasizes approval and scoring of a specific program plan, rather than selection from various alternatives.
- DHS has substantial staffing disparities in its procurement offices as the amount of awards per DHS procurement staff person ranges from a low of about \$3 million up to \$30 million per DHS procurement organization. In addition, some DHS procurement offices may be significantly understaffed, based on two separate studies sponsored by the Office of the Chief Procurement Officer (OCPO).
- DHS needs to establish an effective, independent oversight program. Currently there is no DHS management directive addressing OCPO oversight of DHS procurements. As a result, OCPO has limited authority to ensure compliance with DHS procurement policies and procedures. Establishing effective OCPO oversight could help DHS ensure adherence to standards of conduct, improve agency operations and ensure compliance with agency policies and procedures.
- Finally, several DHS components 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 \$3.3 billion, and the Coast Guard's Deepwater Capability Replacement Project will cost \$19-24 billion and will take twenty to twenty five years 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. DHS OIG will be reviewing these major procurements on an ongoing basis.

## **GRANTS MANAGEMENT**

DHS manages a variety of disaster and non-disaster grant programs. Disaster grant awards will be substantially more than usual with the over \$60 billion appropriated in late FY 2005 for disaster response and recovery efforts related to Hurricane Katrina. Also in FY 2005, DHS expected to award approximately \$4.6 billion of non-disaster grants.

We are 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. We will continue its audits of state and local governments' management of first responder grant funds and the Department's disaster relief programs, with special emphasis on Hurricane Katrina disaster response and recovery grant spending.

DHS needs to ensure that, to the maximum extent possible, homeland security assistance goes to those areas that represent the highest risks or vulnerabilities. For example, in our report on the DHS Port Security Grant program, we reported that DHS grant making for this sector of national infrastructure was not well coordinated with the Information Analysis and Infrastructure Protection Directorate's (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 did 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 noted that the Office of State and Local Government Coordination and Preparedness (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, and that in FY 2005, SLGCP would involve IAIP's Office of Infrastructure Protection appropriately in the Port Security Grant Program. Department officials also said that in FY 2005, SLGCP plans to increase staff to allow for site visits and improved oversight of grant-funded projects.

## **FINANCIAL MANAGEMENT**

DHS continues to face significant financial reporting problems, as evidenced by the FY 2004 and projected FY 2005 disclaimer of opinion on its consolidated financial statements. As of this date, we expect that continuing financial reporting deficiencies at ICE and Coast Guard will be the primary reasons for a FY 2005 disclaimer.

In FY 2005, ICE continues to struggle with financial management and reporting problems previously reported. In FY 2004, the financial statement auditors reported that ICE had fallen seriously behind in basic accounting functions, such as account reconciliations, analysis of material abnormal balances, and proper budgetary accounting. They reported that weaknesses in controls might have allowed ICE to violate the Anti-Deficiency Act or prevented management from knowing if they were in violation;

however the auditors were unable to complete their procedures because ICE had not adequately maintained its accounting records. With respect to Coast Guard, we expect that issues related to its military pension liability; property, plant, and equipment; and operating materials and supplies will also contribute to a disclaimer of opinion.

### **DHS Financial Accountability Act**

Under the DHS Financial Accountability Act, DHS must undergo an audit of internal controls over financial reporting beginning in FY 2006. To “pass” such an audit, DHS and its bureaus will have to document its identification, evaluation, and testing of relevant financial controls and implement corrective actions. DHS has taken several positive steps, including the formation of a working committee to address the requirements of the law. Notwithstanding DHS’ commitment to fully comply with the law, this is a significant task and will require a sustained effort not only by the Office of the CFO, but by all managers throughout the Department. We will audit the Department’s FY 2006 internal control attestation during our audit of the Department’s FY 2006 financial statements.

### **HUMAN CAPITAL MANAGEMENT**

The Homeland Security Act gave DHS special authorization to design a human capital management system that fits its unique missions. In June 2004, the Department awarded a contract for services related to the development and implementation of its new human capital management system, MAXHR, and in January 2005, the Department announced its final MAXHR regulations.

Although the Department intended to implement the new personnel system in the summer of 2005, district court decisions in July, August, and October enjoined the Department from implementing significant portions of MAXHR. Whether the Department appeals or proposes further modifications to the program, significant implementation delays are certain. Those delays will impact the cost of implementation, the current development and implementation contract, and the ability to properly and effectively manage its workforce.

We are coordinating with the Government Accountability Office to closely monitor DHS’ efforts to create and implement its new human capital management system.

### **INTEGRATION OF INFORMATION SYSTEMS**

Creating a single infrastructure for effective communications and information exchange at various classification levels within the Department remains a major management challenge for DHS. To meet this challenge, the Chief Information Officer (CIO) has outlined an Information Technology Infrastructure Transformation Program to create a secure, sensitive but unclassified network and a common email system for sharing across the Department. The program includes consolidating data centers, as a means of reducing costs and increasing reliability and survivability of the computing environment. Further, the program discusses plans for transforming helpdesk and other related support services. In September 2005, the Transformation Program was under review by the Department’s senior

leadership.

However, the DHS CIO is not well positioned to accomplish these IT integration 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. Although steps recently have been taken to formalize reporting relationships between the DHS CIO and the CIOs of major component organizations, the CIO still does not have sufficient staff resources to assist in carrying out the planning, policy formation, and other IT management activities needed to support Departmental units. While the CIO currently participates as an integral member at each level of the investment review process, 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, including its intelligence systems, which address the risks and vulnerabilities facing DHS' IT systems.

As we reported in September 2005, based upon its annual FISMA evaluation (excluding its intelligence systems), DHS achieved two significant milestones that will help the Department move toward managing a successful information security program. First, DHS completed a comprehensive inventory of its major applications and general support systems for all DHS' components. Second, DHS implemented a Department-wide certification and accreditation (C&A) tool that incorporates the guidance required to adequately complete a C&A for all systems. The completion of these two tasks eliminated two factors that significantly held the Department back in achieving some success in establishing its security program in the last two years.

As we reported in our FY 2004 FISMA evaluation, and despite several major improvements in DHS' information security program, DHS' components have not completely aligned their respective information security programs with DHS' overall policies, procedures, and practices. For example, not all DHS systems have not been certified and accredited. The CIO has developed a detailed remediation plan to accredit all systems by September 2006. In addition, not all components' information security weaknesses are included in their Plan of Action and Milestones nor is the data in the enterprise management tool complete and current. To address this issue, the CIO will identify ways to improve the review process and increase accountability at the components. The CIO has also made numerous upgrades to its management tool, to improve the accuracy and completeness of the data.

The Department is also tasked to protect its national security systems. We reported in January 2005 that DHS needed to take steps to provide adequate security for the information and information systems that support its classified operations and assets. DHS must also ensure the confidentiality, integrity, and availability of vital classified information. DHS concurred with our recommendations.

## **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, DHS must identify and 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 75,000 national assets. However, the process the DHS 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 IAIP provided guidance for the collection of data, the data it received was often inconsistent. We are evaluating the effectiveness and efficiency of the processes that DHS 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 controlling the borders of the United States. This mission is shared by a number of agencies within the Department.

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 facilitating the flow of legitimate trade and travel. ICE is the investigative agency 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. Additionally, CBP and ICE have employees assigned outside the United States to protect the sovereignty of our borders.

Other DHS components share border security responsibilities. The United States Visitor and Immigrant Status Indicator Technology (US-VISIT) Program is responsible for developing and fielding 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, the U.S. Citizenship and Immigration Services (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, including improved controls over the Visa Waiver Program and lost and stolen

passports; and, reducing the immigration benefit application backlog.

For example, CBP needs to fuse the intelligence gathered with intelligence requirements to accomplish its priority mission. The CBP mission of preventing terrorists and terrorist weapons from entering the United States, while facilitating the flow of legitimate trade and travel is critical. Knowing the difference between legitimate trade and travel and terrorists is a challenge that timely intelligence often solves threat to our national security. The ability of CBP to gather and distribute intelligence information to field personnel has a direct effect on security at our borders. Border security also depends on information about terrorists kept on various watch lists. The watch lists are managed by several Federal agencies. Those agencies and DHS need to coordinate access to the lists to ensure valuable information flows through CBP to field personnel on the line.

Control over the northern border is another challenge. The external challenges to CBP's mission of managing, securing, and controlling our northern border include 128 ports of entry, thousands of miles of difficult terrain, large expanses of private property, and numerous lakes. The primary internal challenge to CBP is to ensure adequate resources are available. Resources on the northern border now include aircraft, vehicles, facilities, and officers, agents and specialists. CBP must have sufficient number and type of personnel, equipment, and border infrastructure to achieve their mission on the northern, Canadian, border.

A further challenge for DHS are the difficulties CBP and ICE continue to experience coordinating and integrating their respective operations. More than two years after their creation, CBP and ICE have not come together to form a seamless border enforcement program. Their operations have significant interdependencies that have created conflict between CBP and ICE. Jurisdictional, operational, and communication gaps exist between the two organizations that must be addressed by DHS leadership.

We are continuing to maintain an aggressive audit and inspection program for the Department's border security initiatives to ensure that they are being carried out in an economical, efficient, and effective manner.

## **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. Our 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 and do not enter the checked 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, improving management and supervision of screener activities, and testing new technologies.

## 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 alone does not ensure effective security. For example, TSA has not installed explosives detection technologies at the checkpoint to screen for explosives on the body. As noted above, TSA is in the process of testing several technologies that include backscatter x-ray, explosives trace portals, and document scanner machines to address concerns regarding detection of explosives on individuals. TSA is currently piloting these technologies at 16 commercial airports to assess the operational effectiveness of the technologies.

We are 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.

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.

For example, there is growing concern that the resources being devoted by the Coast Guard to its Deepwater Program is reducing its ability to maintain and re-capitalize shore side infrastructure critical to its legacy and homeland security missions. The Coast Guard occupies more than 21,000 buildings and structures totaling more than 33 million square feet of building space. The estimated replacement value for these shore side assets is \$7.5 billion. Based on this value, and recent and projected shore infrastructure acquisition, construction, and improvement (AC&I) funding levels, Coast Guard's recapitalization rate<sup>1</sup> hovers around 200 years. This is in sharp contrast to the Department of Defense's target recapitalization rate for its facilities of 67 years.

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<sup>1</sup> Recapitalization rate is the number of years required to regenerate a physical plant – either through replacement or major renovation – at a given level of investment in order to keep the facility modern and relevant in an environment of changing standards and 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 transit services through buses, subways, ferries, and light-rail services to about 14 million Americans. TSA requested \$5.6 billion to facilitate its operations in FY06. However, only \$32 million (less than 1 percent) of this request is earmarked for surface transportation security.

## TRADE OPERATIONS AND SECURITY

Trade Operations and Security is primarily the responsibility of CBP. The Coast Guard and ICE also play important roles in support of this area. In a typical year CBP processes millions of sea containers; semi-tractor trailers; rail cars; millions of tons of bulk cargo; and liquids; such as chemicals, crude oil, and petroleum products. They also process or review all of the personnel associated with moving this cargo across our borders or to our seaports. CBP has the counterbalancing mission of facilitating the legitimate trade so vital to our country and at the same time enforcing the laws associated with trade or border controls. CBP has the challenge of interdicting smuggling and stopping other illegal activities that benefit terrorists and their supporters.

Working with the trade, foreign allies, other DHS components, and other Federal, state and local agencies and organizations, CBP is intent on preventing legitimate commercial cargo from being used by smugglers and terrorists to introduce weapons of mass effect or other contraband into the U.S. CBP has implemented a number of initiatives to accomplish this objective such as the Container Security Initiative (CSI), and Customs-Trade Partnership Against Terrorism (C-TPAT). CSI works with foreign allies and partners to screen and examine containerized cargo at overseas port before it is loaded on ships bound for the U.S. The initiative calls for the increased use of non-intrusive technology to inspect this cargo both overseas and at U.S. ports. Within C-TPAT, CBP works with the trade to develop and implement processes and systems to help secure the supply chain. CBP uses targeting systems to assist in identifying the cargo that represents the highest risk, so that the use of precious and limited resources can be focused on this cargo. Other initiatives include developing a "smart" container that will provide extra protection or warning of tampering or intrusion. In support of CBP's overall trade mission, they are undertaking an extensive and long-term effort to develop a new automated system (ACE) to replace older, less effective and capable trade processing systems. This effort is not scheduled to be fully completed until 2011, and will cost more than \$3.3 billion dollars.

We issued a report regarding the Automated Targeting System (ATS) used to help identify high-risk cargo, and other aspects of the environment in which it is used. In this report, we made several observations about the trade supply chain and its vulnerabilities. We concluded that improvements could be made with regard to the data to which ATS targeting rules are applied, that examination results should be used more systematically in developing targeting rules, and that physical controls over containers selected for examination can be improved. As this review is legislatively mandated, we are currently reviewing other aspects of the ATS and its operational environment.

## Management's Response to The Office Of The Inspector General's Report On Major Management Challenges Facing The Department Of Homeland Security

The following provides specific responses to those issues raised by the Inspector General's (IG) statement on the top management challenges facing the Department.

### DISASTER RESPONSE AND RECOVERY

As highlighted in the IG Statement, the Department recognizes the need for oversight of spending on Katrina recovery efforts. The Department has taken numerous actions to address this issue. In addition to the IG teams now reviewing Katrina and Rita contracts, the Department is establishing a Katrina recovery contracting office to provide a dedicated procurement staff to oversee Katrina recovery contracting work and has formed a fraud, waste and abuse taskforce to ensure the proper financial controls are in place to manage the recovery effort. The Department has brought in outside expertise to conduct tests of FEMA's internal controls and to assess what organizational, staffing and business process changes are necessary for FEMA's financial management organizations to manage the supplemental funding. Dozens of detailees from Department Component CFO organizations have been assigned to FEMA to assist in budget and financial management of the response and recovery work. Secretary Chertoff has communicated to Congress that the Department will ensure that FEMA has mature, solid contracting and procurement systems in place before a disaster – and that those systems include a special focus on procurement integrity.

The Department is taking action to address the IG concern to improve FEMA information technology (IT) systems. During the Katrina response, our efforts were significantly hampered by a lack of information from the ground. With communication systems damaged and state and local assets compromised by the subsequent flooding, our ability to obtain precise reporting was significantly impaired. The sheer force of Hurricane Katrina disabled many of the communications systems that state and local authorities and first responders rely upon to communicate with each other and with FEMA. This was not an issue of interoperability, but of basic operability resulting from wind, flooding, loss of power, and other damage to infrastructure. We are ensuring sufficient communications capabilities are in place in the future and able to function during the worst phases of a hurricane or incident. Future communications must also ensure FEMA has its own increased communications capability so we do not face a similar situation. While satellite phones are helpful, they are not a panacea. We are looking at ways to adapt military and advanced private sector communication technology for emergency use – to help state and local first responders as well as FEMA support personnel.

We are also working to improve other FEMA IT systems related to the business processes for registering people for assistance, and getting them the benefits they need. The Department is evaluating FEMA's disaster registration processes and databases to make sure we have a high degree of confidence

in those systems. We want to have the flexibility to use this information to provide a level of granular detail that enables us to make informed decisions about where to focus our attention and resources, and how to better assist our state and local partners.

In response to the OIG's concern regarding the Multi-Year Flood Hazard Plan, FEMA's 5-year budget and schedule plan for flood hazard data development was issued November 2004 and updated June 2005. This plan reflects funding received and anticipated from the President and Congress. FEMA recognizes that this level of funding does not meet all of the needs of our State and local mapping partners; however, it is important to note that FEMA's role in flood map modernization focuses on essential flood mapping requirements and must be complemented by others. A business planning and standards improvement process with stakeholders is in place to facilitate collaboration and coordination on plan improvements. FEMA is currently evaluating the level of funding required for flood map maintenance. A Partnership Building Plan was issued in March 2005 to develop and implement better strategies for partnering with state and local entities with varying levels of capabilities and resources. In addition, FEMA issued a formal policy on geospatial data coordination in August 2005, and established a geospatial data coordination and standardization management team to support the implementation of the policy in cooperation with stakeholders.

## CONSOLIDATING THE DEPARTMENT'S COMPONENTS

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**P**roposed changes to the Department of Homeland Security's structure and organization as a result of the Second Stage Review are designed to improve our capabilities to protect and safeguard this nation. One critical need within the Department is to have the capacity to think through broad and overarching issues with a Department-wide perspective, rather than just through the lenses of one particular component. By integrating and coordinating areas of intelligence, policy, operations and preparedness efforts, this Department will be in a stronger position to respond actively to present and future threats with appropriate actions and policies.

In regards to consolidating the Department's components, the IG raised the issue regarding the proposal to merge CBP and ICE. Based on the Second State Review of the entire Department, the Secretary determined that ICE and CBP would not be merged. To address the coordination issues involving intelligence, operations, and policy, the Secretary determined that a reorganization of the Department would best address these coordination issues for the entire Department, including ICE and CBP. New policy, operations, and intelligence directorates are being established to facilitate coordination between all of the Department's components in the areas of policy, operations, and intelligence.

Another issue raised by the IG in this arena was the effectiveness of the dual accountability structure for business operations. The Department has implemented the dual accountability structure during fiscal year 2005, and the system has assisted in the integration and streamlining of support service functions. Creating functional excellence required every executive, manager, and employee in the Department to create an environment that rewards collaboration, promotes best practices, and shares accountability for the performance of the management support systems that enable the Department to fulfill its missions. The concept of dual accountability mandates that both components and key departmental functional experts are responsible for organizational excellences. The department functional experts are held accountable for designing systems to optimize service functions, setting the standards for function performance, creating the department-wide policies and processes, providing

the automated solutions to yield greater efficiencies, and nurturing the development and success of centers of excellence. Components are likewise accountable to support these progressive business functions as a key part of their commitment to mission accomplishment.

In all efforts of this magnitude, when so much is to be gained, the integration and alignment of each function requires strong communication, respect for both individuals and processes, and a shared resolve to find solutions that benefit both mission accomplishment and functional excellence. Leadership across the Department is challenging traditional approaches, communicating, and executing as a team to design and execute support functions that will constitute progressive 21st century excellence in governance.

## CONTRACT MANAGEMENT

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**W**hile the IG report highlights some ongoing challenges in the contract management arena, there have been improvements since last year in the Department's contract management system. For instance, clear lines of responsibility have been established in this arena. The Undersecretary of Management (USM) is responsible for establishing department-wide policies and procedures for program management operations. Within USM, the CPO has responsibility for the acquisition workforce, acquisition policy, and oversight. The CFO's Program Analysis and Evaluation (PA&E) office is responsible for coordinating reviews for the Investment Review Board and Joint Requirements Council (JRC), which provide Department oversight of major acquisitions.

The Department recognizes that ensuring the necessary numbers of certified program management staff are present is a multi year issue, and is actively working to increase the number of certified program management staff in the Department. The Department currently has an agreement with the Defense Acquisition University for program management training. The Department is instituting improvements to the IRB process, the most notable being implementing an integrated review process to provide decision makers with advice from functional experts (within the CFO, CIO, CPO, CAO, S&T, Policy, General Law & Privacy). The department is also developing procedures for independent verification and validation (IV&V) of major investments, addressing another IG concern. As part of the IRB governance process, additional emphasis is placed on assuring that a program management office is in place on Level I and II initiatives.

The Department concurs with the IG that several high visibility investments in the Department (ACE, US-VISIT, Deepwater) require close management. These investments are reviewed quarterly when they submit their status reports that are required by Congress, along with an intensive review that occurs with submittal for approval of their annual expenditures plans. The Department is working to implement a quarterly reporting process for all major investments that will gauge project management efforts in terms of adherence to cost, schedule, and performance.

To address the staffing disparities in procurement offices, the CPO established target staffing levels and communicated this to Department components in writing. The CPO provided input to the CFO for the fiscal year 2007 to fiscal year 2011 budget to support the target staffing levels.

## GRANTS MANAGEMENT

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**S**tate and Local Government Coordination and Preparedness (SLGCP) has taken a number of steps to address the grants management challenges identified in the IG. First is the establishment of SLGCP's internal grant financial management office, the Office of Grant Operations (OGO). Effective October 1, 2005, OGO assumed responsibility for all pre- and post-award grant financial management activities for the SLGCP programs currently serviced by its legacy Department of Justice organization. The OGO staff has defined its financial monitoring parameters and objectives and is finalizing its fiscal year 2006 monitoring plan and site visit/desk review guidelines. The goal is to ensure that adequate financial monitoring is performed on SLGCP's expanding portfolio of grants. During the month of October 2005, OGO will begin fulfilling monitoring objectives by performing site visits in tandem with program managers from SLGCP's Preparedness Programs Division (PPD). Another step taken to address these management challenges is the establishment of the Transportation Infrastructure Security Division (TISD) within PPD. This Division is staffed by transportation subject matter experts, and was created specifically to manage the transportation-related grant programs inherited from the Transportation Security Administration (TSA).

The second major accomplishment is the use of risk criteria in making grant allocation decisions. Specifically, SLGCP, in coordination with IAIP and the Coast Guard, refined the fiscal year 2005 Port Security Grant Program to make the allocation of funds more risk-based. As part of this process, a risk-based formula was used to limit eligibility to the nation's sixty-six (66) most at-risk ports. In addition, national port security priorities were identified for the program, and the application review process was sharpened to focus on these national priorities, as well as local port security factors like alignment with the port's Area Maritime Security Plan. Based on these program enhancements, the Department's IG concluded that SLGCP had sufficiently responded to the recommendations contained in IG Report 05-10, Review of the Port Security Grant Program, and closed all of the recommendations contained in this report in July, 2005.

At the outset, the Department acknowledges that although we have substantial resources to provide security, these resources are not unlimited. Therefore, we as a nation must make tough choices about how to invest finite human and financial capital to attain the optimal state of preparedness. In making the tough choices on where and how to invest in security, the Department will focus preparedness on objective measures of risk and performance. This risk analysis is based on these three variables: (1) threat; (2) vulnerability; and (3) consequences. These variables are not equal – for example, some infrastructure is quite vulnerable, but the consequences of attack are relatively small; other infrastructure may be much less vulnerable, but the consequences of a successful attack are very high, even catastrophic.

The Department will concentrate first and most relentlessly on addressing threats that pose catastrophic consequences. Some of the tools needed to prevent, respond and recover from such awful scenarios are already in place; but others need significant improvement. The first step in enhancing national preparedness is establishing a preparedness baseline that measures the effectiveness of our planning for preventing, protecting against, and responding to terrorist acts or disasters. A Department review team has, therefore, constructed the model for an analytic matrix that will set that baseline. The

matrix will allow us to analyze possible threats and will map the current state of prevention, protection and response planning with regard to each. This matrix will be a critical tool enabling us to identify and remedy current gaps in preparedness.

Bringing greater planning discipline to each of these risk scenarios ensures we secure the highest risk areas, especially in executing our preparedness mission. And simple common sense counsels that we begin by concentrating on events with the greatest potential consequences. That is why the Department's National Preparedness Goal -- and additional, risk-based planning -- will form our standard in allocating future Department grants to our state and local partners so that we build the right capabilities in the right places at the right level. Federal money will be distributed using the risk-based approach that we will apply to all preparedness activities.

## FINANCIAL MANAGEMENT

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**T**he Department is committed to world-class financial management. The Department continues to proactively monitor the management and oversight of financial management improvements for ICE and Coast Guard as well as other Department components whose deficiencies in internal control compromise the integrity of financial reporting in the department. All Department components have corrective action plans to fix existing material weaknesses identified in the audit to achieve an unqualified audit opinion on the consolidated financial statements. The Department's CFO has instituted a Three Year Vision for Financial Reporting to position the Department for an unqualified opinion on the fiscal year 2007 financial statements. The Department's CFO's Office (OCFO) continues to meet regularly with all the Department components, including Coast Guard and ICE to assess progress against both the correct action plan and CFO's Vision, and to discuss and resolve problem areas.

The OCFO is continuing its efforts to functionally integrate the financial management line of business activities at the Department. The OCFO has already realized progress toward the vision of a unified financial management system for the Department by reducing and consolidating the number of disparate budget, finance, and accounting processes, providers, and systems. Since the Department's inception, OCFO has reduced the number of accounting providers from nineteen to eight. The OCFO is continuing to enhance its guidance to and oversight of Components and is making significant progress in establishing Department-wide standard operating procedures and policies, particularly in the areas of budget execution, financial management, and financial reporting. We will continue to work with the IG as we proceed to improve our financial management practices.

## DHS FINANCIAL ACCOUNTABILITY ACT

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**F**iscal year 2005 proved to be a watershed year for internal controls at the Department of Homeland Security. Shortly after passage of the DHS Financial Accountability Act, the Department developed a strategy and vision for implementation. Most notably, the Department established an Internal Control Committee (ICC) responsible for improving internal controls. ICC membership includes a Senior Management Council, ICC Board, and Senior Assessment Team. The Senior Management Council is comprised of the Department's Under Secretary for Management, CAO, CFO, CHCO, CIO, and CPO. Their function entails overall management accountability, monitoring of corrective action plans, and ICC sponsorship. The ICC Board seeks to integrate and coordinate internal control assessments

with other internal control-related activities and includes representatives from all Department lines of business to address crosscutting internal control challenges. Finally, the Senior Assessment Team comprised of senior level financial managers carries out and directs Component level internal control assessments. Over the past year the ICC has:

- Published our landmark implementation guide, which is specifically tailored to support an attestation on internal control over financial reporting as required by the DHS Financial Accountability Act.
- Developed a comprehensive integrated framework for the Federal Financial Managers' Financial Integrity Act and have taken significant steps to prepare for implementing the recent revisions to OMB Circular A-123, Management's Responsibility for Internal Control, effective in fiscal year 2006.
- Implemented the GAO Internal Control Management and Evaluation Tool across the Department to facilitate the development of internal control activities in accordance with GAO's Standards for Internal Control in the Federal Government.
- Initiated a seven-step plan to prepare for the fiscal year 2006 audit of internal controls over financial reporting.
- Completed a comprehensive internal control assessment of the consolidated financial reporting process within the OCFO. In addition, the Coast Guard, one of our largest Components, has initiated process level documentation pilots.
- Developed corrective action plans for all material weaknesses and reportable conditions and a Management Directive and Process Guide to ensure these corrective action plans demonstrate results.

## HUMAN CAPITAL MANAGEMENT

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**W**hile the District court decisions have enjoined the Department from implementing certain portions of MAXHR, the classification, pay and performance management provisions of the new human resources management program are moving forward. Deployment of the new performance management system is being implemented for covered employees, including managers, supervisors, non bargaining unit employees, in Headquarters starting in October 2005, and will be expanded during fiscal year 2006 to other Department components, such as FLETC, Secret Service, USCG, FEMA and ICE. Significant design work will continue on the new pay system with planned implementation by January 2007 for phase 1 organizations, such as HQs, Secret Service, USCG, FEMA and FLETC. Emphasis on performance management training for all audiences, i.e., managers, supervisors, HR specialists, systems administrators, and all employees, will continue throughout fiscal year 2006. The Department also evaluated the impact on the fiscal year 2006 funding requirement and reduced the request accordingly. It is anticipated that the overall cost for full implementation will not increase.

## INTEGRATION OF INFORMATION SYSTEMS

**C**IO believes it is properly positioned and has the authority it needs to accomplish its mission. The CIO is the principal IT authority to the Secretary and Deputy Secretary, and it will continue to hold that leadership role within the Department. The CIO continues to work on the integration of its information systems. To that end, the Infrastructure Transformation Office (ITP) has been tasked with improving information sharing and interoperability, providing a reliable and scalable infrastructure, and managing costs efficiently. To effectively manage this transformation from over 20 individual, stand-alone IT infrastructures with minimal interconnectivity, to a single, cohesive IT infrastructure, the ITP is organized by the following project areas:

- **Network Services:** Establish an integrated enterprise network for the Department by streamlining and standardizing the network environment, minimizing the amount of redundant IT infrastructure, providing operational and security support, and developing a Department-wide network topology with centralized governance and standardized procedures.
- **Email Services:** Establish a common, SBU e-mail system for the Department and provide enterprise directory services.
- **Help Desk and Related Services:** Establish a centralized help desk capability to resolve issues such as network connectivity, data access, and email access.
- **Data Center Services:** Establish two data center facilities that will improve information availability by standardizing backup functionality, improve security by reducing the number of locations and consolidating network entry points, improve system reliability by employing enhanced environmental controls, and improve the real-time availability of Department data.
- **Video Services:** Establish a standard, enterprise-wide video operations capability for the Department.

## SECURITY OF INFORMATION TECHNOLOGY INFRASTRUCTURE

**T**he success of the Department's mission is absolutely dependent on our ability to protect sensitive information used in defending the homeland. While much of the Information Security Program is structured around compliance with FISMA, OMB and National Institute of Standards and Technology (NIST) standards and guidance, the Department's Information Security Program has also been designed to provide a secure and trusted computing environment based on sound, risk-management principles and program planning.

We agree that compliance on the part of the Department component organizations is paramount to the success of a Departmental information security plan. To this end, the Office of the CIO recently completed a comprehensive inventory of all information systems currently in use within the components, as well as in the headquarters organizations. This inventory followed a common methodology for determining appropriate security boundaries and will now serve as the baseline for systematically improving our systems security. This framework of common inventory definitions, coupled with recently deployed enterprise-wide security management tools and processes, will provide the common trust en-

vironment that is necessary for negotiating effective and appropriate rules-of-behavior across system boundaries, thereby facilitating information sharing.

## INFRASTRUCTURE THREAT ASSESSMENT

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**T**he IG raised concern about the Department's ability to gather information for the National Asset Database (NADB). As of August 2005, the NADB contained nearly 100,000 assets with tens of thousands of other assets available for inclusion. It is important to note that the process of assessing threats against the assets, determining the vulnerability of an asset, and prioritizing the threat mitigation effort is inexorably tied to the data collection effort itself. Data collection is a challenge as Information Protection relies on a myriad of sources for data, and is without a preexisting legal or regulatory framework for data collection or prioritization of information. The Department has been successful in building the needed capabilities, and results are now beginning to emerge. While there is no precedent for collecting the extensive information that forms the NADB, IAIP is leading the way and has created a blueprint for collecting the information and conducting the analysis.

## BORDER SECURITY

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**W**e agree with the OIG's assessment that the Department faces several formidable challenges in securing the nation's borders. The Department is aggressively addressing these issues and the solutions will require dedicated management oversight. We have developed a comprehensive multi-year plan to secure America's borders and reduce illegal immigration, referred to as the Secure Border Initiative (SBI). To facilitate implementation of SBI, the Department is establishing a program office at the department level to coordinate and integrate policy, provide procurement oversight, and facilitate inter-agency participation for this border and interior enforcement initiative. This includes coordinating and integrating CBP and ICE efforts to form a more seamless border security program. Since resources are not infinite, this program will use a risk based approach to deploy personnel, technology and border infrastructure at both the northern and southern borders.

We will address all aspects of the border security problem across the board – deterrence, detection, response, apprehension, detention, and removal. We will address the challenges in each of these areas with an integrated mix of increased staffing, more robust interior enforcement, greater investment in detection technology and infrastructure, and enhanced coordination on federal, state, local, and international levels. The Department has already made improvements to secure our borders and enforce immigration laws since 9/11. The Department has over 11,000 Border Patrol agents along more than 6,000 miles of northern and southern border, an increase of 15% over 9/11 levels, and is currently adding 1,500 more Border Patrol Agents. An additional 18,000 officers are posted at our Ports of Entry (POE), and over 8,000 agents and officers working to apprehend criminals, absconders, and other individuals illegally in the United States. Despite our substantial progress, we still face a substantial problem. The ability of individuals to enter our country outside legal channels is a threat to our homeland security. Flagrant violation of our borders undercuts the rule of law, undermines our security, and imposes particular economic strains on our border communities.

SBI is designed to enable the Department to achieve operational control of both the northern and southern border within five years. Key elements of SBI include:

- More agents to patrol our borders, secure our ports of entry and enforce immigration laws.
- Expanded and more efficient detention and removal capabilities to eliminate “catch and release” once and for all.
- A comprehensive and systemic upgrading of the technology used in patrolling the border, including increased manned aerial assets, expanded use of UAVs, and next-generation detection technology.
- Increased investment in infrastructure improvements at the border – providing additional physical security to sharply reduce illegal border crossings.
- Greatly increased interior enforcement of our immigration laws – including more robust worksite enforcement.

In response to other Border Security concerns raised by the IG, US-VISIT continues to be a top priority for the Department. US-VISIT entry procedures are currently in place at 115 airports, 15 seaports and in the secondary inspection areas of the 50 busiest land ports of entry. US-VISIT exit procedures are operating at 12 airports and two seaports. Entry procedures will be deployed to the remaining land ports of entry by December 31, 2005.

Efforts to integrate the Department's Automated Biometric identification System (IDENT) system with the FBI's Integrated Automated Fingerprint Identification System (IAFIS) fingerprint system are moving forward. DHS is implementing a plan to transition to 10-print finger print capture in collaboration with Commerce, State, Defense, Justice and State Departments. Immediate 10-print transition efforts will be focused on enrollment efforts, and an initial IDENT/IAFIS interoperability solution is planned within 6 months of this transition. The plan proposes to:

- Begin enrolling foreign nationals using 10-print, while conducting current background checks
- Push aggressive investment to drive biometric technology market to deliver scanning equipment capability
- Improve IDENT to improve accuracy and watch list matching
- Continue to support IDENT/IAFIS interoperability work

To strengthen document integrity, the Department is now requiring a digital photograph of the passport holder's face printed on the data page of the passport after extensive consultation with Congress and the Department of State. The Department imposed an October 26, 2006 deadline for the integrated circuit chip, or e-passport, capable of storing the biographic information from the data page, a digitized photograph, and other biometric information in travel documents. Valid passports issued before October 26, 2005, will still be accepted for travel under the auspices of the Visa Waiver Program (VWP), provided that the passports are machine-readable.

In addition to the digital photo and chip requirements, the Department is taking steps to strengthen

document integrity by requiring VWP countries to commit to several measures concerning lost and stolen passports. Among them, the Department will require VWP countries to report all lost and stolen passports to INTERPOL and to the Department, and increase information sharing between VWP countries and the United States government on trends and analysis of lost and stolen passports.

In response to another issue raised by the IG, the Department is committed to reducing the backlog of immigration cases. The goal is to reduce the cycle time for all cases to six months or less. Significant productivity gains must be realized to meet the target of a six-month cycle time for all immigration benefit applications by the end of fiscal year 2006. As such, USCIS is reengineering business processes, increasing the use of information technology to achieve greater efficiencies, updating policies and procedures to increase uniformity of decision making within the adjudication process, managing against milestones, and working cooperatively with stakeholders to identify other means of improvement. USCIS also will intensify its anti-fraud efforts, enhance its quality program, and modernize its information technology systems that will be the backbone of reengineered business processes. The combination of these efforts will ensure we reduce the backlog.

## TRANSPORTATION SECURITY

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### AIRPORT SCREENERS

A Department IG undercover audit of screener performance revealed that improvements are needed in the screening process to ensure that dangerous prohibited items are not introduced into the sterile areas of airports and that explosives, do not enter the checked-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, improving management and supervision of screener activities, and testing new technologies.

### 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). TSA has also deployed technologies, including explosives trace detection (ETD) devices, to detect potential explosives in carry-on baggage. However, deployment of the equipment does not ensure effective security; resolution of technology alarms is a key element to effective security. In the area of checkpoint technology, TSA has installed table top explosives trace detection technologies at the checkpoint to provide some capabilities when screening suspect carry-on items, electronic items, shoes, etc. To increase and automate these capabilities at the checkpoint, TSA has tested several technologies that include explosives detection trace portals and explosives detection document scanners to address detection of explosives on individuals. Based on the results of these pilots, TSA is now deploying the portals to the nation's largest airports. The document scanner that was piloted, while effective, was not determined to be efficient, therefore; TSA has reengaged technology manufacturers to develop an automated document scanner that will provide efficiencies and effectiveness. TSA is also planning to pilot other emerging technologies in fiscal year 2006, to include an automated explosives detection system for carry-on baggage to replace standard x-ray technology, and whole body imaging technology (x-ray backscatter) for screening persons for

both weapons and explosives.

## MARITIME SECURITY

The United States Coast Guard has been diligent in its mission to provide the nation with maritime security. They are meeting their challenges through a myriad of initiatives including:

- On-going delivery of the Integrated Deepwater System (IDS) including: construction of the first two Maritime Security Cutters-Large to be delivered in fiscal years 2007 and 2008, initial design of the Maritime Patrol Coastal (WPC) and the Maritime
- Security Cutter-Medium; production of the first two Maritime Patrol Aircraft and two Vertical Unmanned Aerial Vehicle (VUAV) to be delivered in fiscal year 2006; continued development of a Common Operating Picture at shore-based Command Centers, an Integrated Logistics Support System and legacy sustainment/enhancement projects for all major cutters and aircraft, including continued re-engineering of the HH-65 short-range helicopter fleet.
- Implementation of the Maritime Transportation Security Act (MTSA) of 2002: In fiscal year 2005 the USCG added 500 personnel to develop, review, and approve approximately 9,000 domestic vessel security plans and 3,200 domestic facility plans; develop 48 Area Maritime Security Plans and Committees; perform 55 domestic Port Security Assessments; develop a national Maritime Transportation Security Plan, verify security plan implementation on 8,100 foreign vessels and continue conducting foreign port security assessments on 100+ countries conducting direct trade with U.S.
- Continuation of the Great Lakes Icebreaker (GLIB) project, which will reach full operating capability in fiscal year 2006.
- Continuation of the Rescue 21 project, recapitalizing the USCG's coastal zone communications network, to ensure completion by the end of fiscal year 2007.
- Adding nearly 100 new personnel to support planning and coordination of all USCG mission at Command Centers.
- Continue implementation of the nationwide Automatic Identification System (AIS), significantly enhancing Maritime Domain Awareness (MDA) and improving the USCG's ability to detect maritime security threats farther from the nation's ports.
- Procurement of new Response Boats: Continue recapitalization of the USCG's obsolete, non-standard utility boats and increase the USCG's presence in critical ports and coastal zones.
- Commence Airborne Use of Force (AUF) implementation on the USCG's entire fleet of helicopters by arming existing helicopters at various Air Stations. AUF capability will improve performance of all homeland security missions, including enhanced protection of U.S. ports.
- Continue C-130J Maritime Patrol Aircraft (MPA) missionization. This project will provide additional MPA resources, enhancing MDA and resulting in increased ability to detect, identify, and monitor maritime security threats such as illegal drug traffickers. Armed with MPA surveillance information, USCG operational commanders can optimize use of surface assets and rotary wing aircraft through targeted interdiction of known threats.

- Added 55 billets for enhancing intelligence collection and oversight as a member of the national Intelligence Community. The staff will support critical maritime intelligence support nodes, the USCG Central Adjudication Facility (CGCAF) at the Security Center in Chesapeake, Va., and program management at the strategic-level.

## OTHER TRANSPORTATION MODES

In addition to aviation security, TSA is tasked with managing the security risk to the U.S. surface transportation systems while ensuring the freedom of movement of people and commerce. These systems include nine billion passenger trips per year on the nation's mass transit systems, over 161,000 miles of interstate and national highways and their integrated bridges and tunnels, and nearly 800,000 shipments of hazardous materials (95 percent by truck). For these systems, TSA will address these security responsibilities in partnership with other components of the Department as well as the DOT and other Departments.

TSA has provided the top 10 mass transit and passenger rail agencies with TSA-certified explosives detection canine teams to aid in the identification of explosives materials within the mass transit/rail transportation system. In addition, TSA has hired and deployed 100 surface transportation (rail) inspectors to enhance the level of national transportation security by leveraging private and public partnerships through a consistent national program of compliance reviews, audits, and enforcement actions pertaining to required standards and directives. TSA has implemented computer security and tools to ensure that risk and vulnerability assessments are performed leading to full certification and accreditation of major application and general support systems and to provide a Computer Security Incident Response Capability.

## TRADE OPERATIONS AND SECURITY

**T**he Department has developed a multi-layered approach to ensure the safety and security of our trade operations, including several efforts focused on container and supply chain security, namely the Container Security Initiative (CSI), the Customs Trade Partnership Against Terrorism (C-TPAT), and the Automated Targeting System (ATS). In post-9/11 America, CSI is based on an idea that makes sense: extend our zone of security outward so that American borders are the last line of defense, not the first. Through CSI, maritime containers that pose a risk for terrorism are identified and examined at foreign ports before they are shipped to the United States. Early on, CSI focused on implementing the program at the top 20 foreign ports which ship approximately two thirds of the volume of containers to the U.S. Governments from these 20 foreign ports have already agreed to implement CSI. As CSI has evolved, CBP hopes to expand the program to additional ports based on volume, location and strategic concerns. Strong support from countries on the European, Asian and African continents ensure that CSI will continue to expand to ports in those areas.

Since October 2004, CBP and the trade community have worked collaboratively to develop minimum security criteria for importers either already enrolled in the C-TPAT program, or wishing to join this voluntary supply chain security program. These new minimum security criteria help solidify membership expectations, and more clearly define and establish the baseline level of security measures which must be employed by member importers. These security criteria are effective as of March 25, 2005. A

phased implementation schedule has been implemented and applies to all C-TPAT Importer members. ATS is an aggressive, sophisticated targeting tool that enhances Customs ability to perform enforcement operations. ATS is a system that will assist Customs officers in identifying imports which pose a high risk of containing narcotics or other contraband. The system standardizes bill-of-lading, entry, and entry summary data received from the Automated Commercial System (ACS) and creates integrated records called "shipments". These shipments are then evaluated and scored by ATS, through the use of over 300 weighted rules derived from targeting methods used by experienced Customs personnel. The higher the score, the more the shipment warrants attention. The system allows inspectors to concentrate on higher-risk shipments for further screening and examination. It provides inspectional personnel with the ability to conduct quick data analysis of profile information accumulated on shippers, carriers and importers. ATS is operating in Newark, NJ, Laredo, TX, Seattle, WA, and the Port of Los Angeles/Long Beach, California. Future plans include the installation of ATS at all major seaports, airports, and land border ports of entry. It may also be expanded to outbound operations to target export cargo for anti-terrorism, currency smuggling, and other export violations.

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# Performance Information

Part II

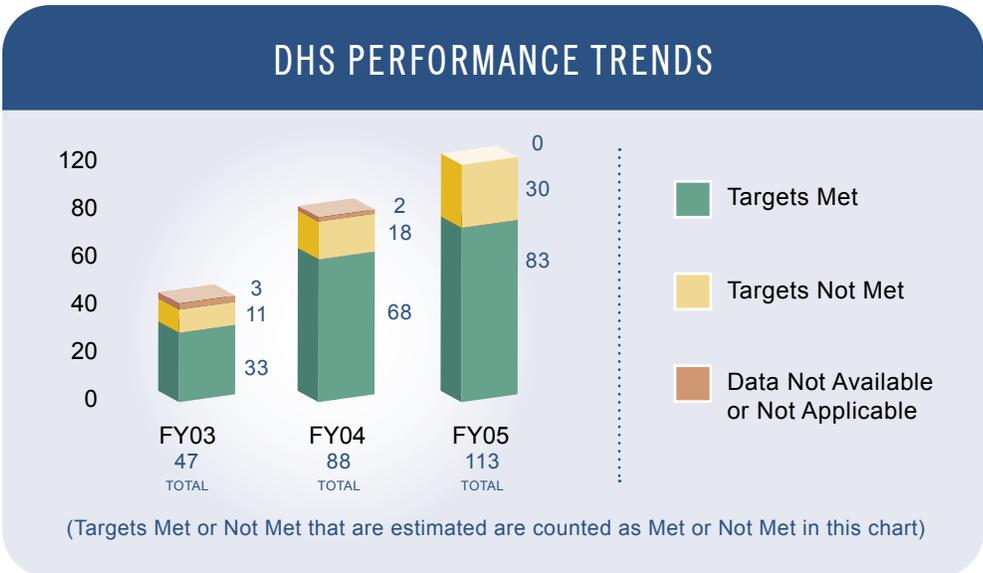
# Introduction

**T**he mission of the Department of Homeland Security is to lead the unified national effort to secure America while working to prevent and deter terrorist attacks, and protect against and respond to threats and hazards to the nation. In addition, the Department ensures 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.

This section provides detailed descriptions of how the Department performed in support of its seven strategic goals during fiscal year 2005. The Department developed 113 specific program performance measures to assess results of our activities in achieving the goals in fiscal year 2005. While the information provided in this report provides insight into the Department’s performance, it cannot within a single report present a complete view of the results achieved.

During fiscal year 2005, we also continued to evaluate program performance goals and performance measures for improvement. Based on these evaluations, we adjusted some of the program performance goals. In these cases we report both the old performance goal as was presented in our performance plan for the year, and the new revised goals. We believe these new goals are a positive outcome of consistent self appraisals and reflect our commitment to progress in measuring our performance. Likewise, we found some measures herein could be, and will be improved in the fiscal year 2006 performance plan to better reflect achieving results.

During fiscal year 2005, we met or exceeded 83, or 73%, of our performance targets. Of these, 7 were estimated to be met. Of the targets reported, 97 were specified targets and 16 were successful in establishing a fiscal year 2005 baseline for performance. We did not meet 30, or 27%, 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.



Program performance goals and measures are reported under the departmental strategic goal with which they most strongly support. As programs may support multiple Department strategic goals and objectives, all objectives a program supports are reported.

Performance information tables summarize the Department's performance against our annual performance plan for fiscal year 2005. There is one table for each program. Each table presents the program performance goal, performance measure, targets and actual performance, a description of the performance measure, an explanation of fiscal year 2005 results, recommended actions if appropriate, associated Department strategic plan objectives supported, and the program name and responsible organizational component.

This section also addresses the completeness and reliability of performance measures data and summarizes key program evaluations conducted during fiscal year 2005. For performance measures where data are determined to be inadequate, we provided explanatory information and actions the Department will take to correct deficiencies. We also report in this section on performance measures results that are estimated when actual results are not yet available. Estimated results are also identified in the program performance tables.

Additionally, this section presents two types of program evaluations: 1. Program Assessment Rating Tool (PART) evaluations conducted by the Office of Management and Budget (OMB) and; 2. Evaluations conducted by the Department's Office of Inspector General (OIG) and the Government Accountability Office (GAO), or independent evaluators. During the fiscal year 2005, OMB completed 17 PART reviews. No Department program was found to be ineffective. 4 programs were rated effective, 1 was rated moderately effective, and 5 programs were deemed adequate in achieving results. 7 had not yet completed the ability to quantitatively report upon results. Each PART concludes with recommendation to strengthen programs. In this section we report upon those and other evaluation recommendations and progress in implementing them. The OIG summarized the major management challenges the Department faces in the Inspector General's Report included in Part I – Management Discussion and Analysis.

The results explained in this report began with planning conducted in the Department's Planning, Programming, Budgeting and Execution System (PPBES) that serves as the basis for developing the Department's Future Years Homeland Security Program (FYHSP). In accordance with the provisions of the Homeland Security Act of 2002, the Department will submit the FYHSP to Congress annually. The PPBES 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; FYHSP; and the PPBES 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 proper stewardship of taxpayer dollars.

## Completeness and Reliability

**T**he Department continues to recognize the importance of collecting complete and accurate performance data, as this helps us determine progress toward achieving our goals. To make well-informed decisions, we have established performance measures and reporting processes to report performance with data collected 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 No. A-11, Preparation, Submission and Execution of the Budget, Section 230.2 (f). In the following tables, we identify:

### COMPLETENESS

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**A**ctual performance for every performance goal and measure in the fiscal year 2006 Performance Budget (performance plan), which included the final performance plan for fiscal year 2005, including preliminary data if that is the only data available, except as noted in this section on Completeness and Reliability. Where estimates have been provided, actual performance data will be provided in the fiscal year 2006 Performance and Accountability Report.

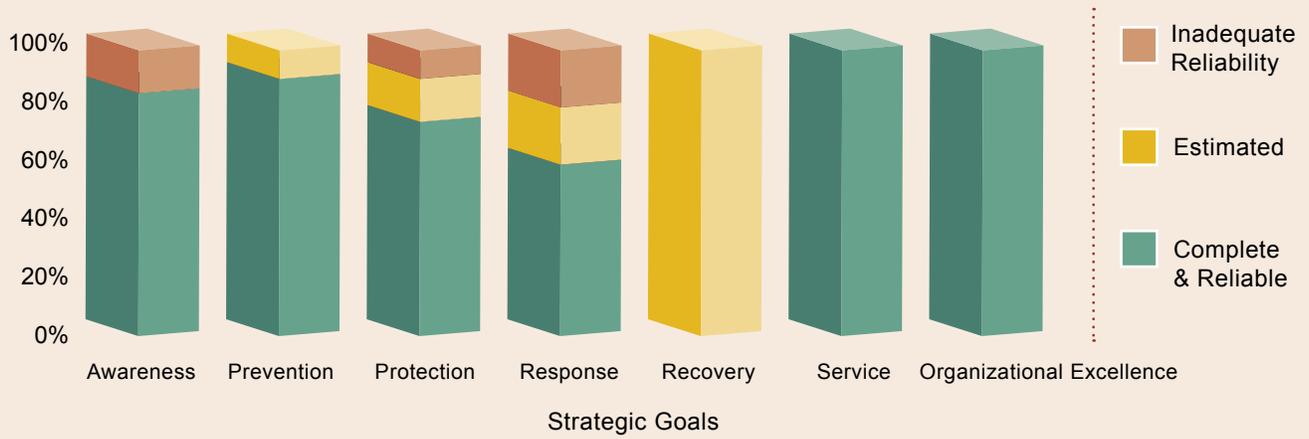
### RELIABILITY

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**D**epartment 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. FY 2005 performance data that are estimates as final information could not be collected in time for this report are also identified.

With the exception of the performance data identified in the following tables, information contained within this report is reliable and complete in accordance with OMB standards.

### COMPLETENESS AND RELIABILITY SUMMARY BY GOAL



(Note: The Recovery Strategic Goal has only one Measure)

## STRATEGIC GOAL 1 - AWARENESS

<b>Program</b>	<b>Biosurveillance (BIO)</b> Information Analysis and Infrastructure Protection Directorate
<b>Performance Measure</b>	Percentage of recommended National Biosurveillance Integration System (NBIS) process improvement actions that are actually accepted and implemented into the NBIS operating procedures.
<b>Explanation and Corrective Action</b>	INADEQUATE RELIABILITY: A computer-based tracking log, maintained by Protective Security Division (PSD), on an on-going basis, will be used to track the status of each process improvement idea submitted. Performance measure data will be available for reporting within 3 months of the National Biosurveillance Integration System (NBIS) achieving Initial Operating Capability, estimated to be later in fiscal year 2006.

## STRATEGIC GOAL 2 - PREVENTION

<b>Program</b>	<b>Drug Interdiction</b> United States Coast Guard
<b>Performance Measure</b>	Removal rate for cocaine that is shipped via non-commercial maritime means.
<b>Explanation and Corrective Action</b>	ESTIMATED DATA: Removal rate includes cocaine seized as well as that confirmed as jettisoned, sunk or otherwise destroyed. Jettison, sunk and otherwise destroyed cocaine data is verified through the consolidated counter-drug data base run by the United States Interdiction Coordinator. USCG Seizure data continues to be tracked and verified by Federal Drug Identification Numbers. The non-commercial maritime flow data continues to be provided by the annual Interagency Assessment of Cocaine Movement report. Therefore, we are confident that the measure is accurate, materially adequate and the data sources are reliable.

## STRATEGIC GOAL 2 - PREVENTION

<b>Program</b>	<b>Marine Safety</b> United States Coast Guard
<b>Performance Measure</b>	Maritime Injury and Fatality Index.
<b>Explanation and Corrective Action</b>	ESTIMATED DATA: As this measure combines a five-year average of deaths and injuries onboard commercial vessels with an annual count of recreational boating fatalities, a sudden spike in annual recreational fatalities due to a unique event may unduly influence the reliability of the larger index. Further, deaths or disappearances from government vessels, foreign flag vessels outside of U.S. waters, and fixed offshore platforms and facilities are excluded due to lack of USCG jurisdiction. Deaths determined to be from diving, natural causes, or the result of an intentional act - such as suicide, heart attack, altercation, or the like - are also excluded as they do not reflect upon vessel material safety issues.
<b>Program</b>	<b>Detention and Removal</b> United States Immigration and Customs Enforcement
<b>Performance Measure</b>	Number of aliens with a final order removed in a quarter/Number of final orders that become executable in the same quarter (demonstrated as a percent).
<b>Explanation and Corrective Action</b>	ESTIMATED DATA: The data integrity of the Deportable Alien Control System (DACS) falls within the acceptable limits of any IT system. The Detention and Removal Office (DRO) drops data outside the norms or that is known to be faulty. This creates data that DRO considers highly reliable. This type of "normalization or cleaning" is done every day with every type of data. DRO has enough confidence in the data to use it for executive decision-making and for Congressional reporting. Furthermore, due to recent data clean-up efforts for the move to the ENFORCE Removals Module (EREM), DRO has more confidence now in the data than any other time since DACS was deployed. As part of the migration to EREM, many known data errors in DACS will be corrected before implementation. This effort will significantly improve the overall data integrity of DACS and EREM. New policies and procedures will be implemented to require greater supervisory oversight of data within the system. Supervisors will be required to review more cases within the system for accuracy and completeness. Actual data will be reported in the fiscal year 2006 Performance and Accountability Report.

## STRATEGIC GOAL 3 - PROTECTION

<b>Program</b>	<b>Evaluation and National Assessment Program</b> State and Local Government Coordination and Preparedness
<b>Performance Measure</b>	Percent of recommendations made by reviewing authorities (i.e., IG, OMB, GAO) that are implemented within 1 year.
<b>Explanation and Corrective Action</b>	ESTIMATED DATA: SLGCP continuously reviews recommendations made in independent evaluations for inclusion in this measure. SLGCP coordinates with its program offices to assess whether recommendations have been implemented, and whenever possible, SLGCP collects evidence (e.g. Inspector General review closeout letters) to confirm implementation of recommendations.
<b>Program</b>	<b>Fire Act Program</b> State and Local Government Coordination and Preparedness
<b>Performance Measure</b>	Number of Firefighter injuries
<b>Explanation and Corrective Action</b>	INADEQUATE RELIABILITY / DATA ESTIMATE: Data reliability for this measure is inadequate because U.S. Fire Administration (USFA) data on firefighter injuries is not published until years after injury incidence. The Fire Grants Program is developing additional measures that capture program outcomes and are supported by data that is available in a more regular and timely fashion. The program has already developed an additional outcome measure to address performance measurement.
<b>Program</b>	<b>Fire Act Program</b> State and Local Government Coordination and Preparedness
<b>Performance Measure</b>	Number of civilian deaths from fire
<b>Explanation and Corrective Action</b>	INADEQUATE RELIABILITY / DATA ESTIMATE: Data reliability for this measure is inadequate because National Fire Protection Association (NFPA) data on fire-related civilian deaths is published on a lagged schedule. The Fire Grants Program is developing additional measures that capture program outcomes and are supported by data that is available in a more regular and timely fashion. The program has already developed an additional outcome measure to address performance measurement..
<b>Program</b>	<b>Protection of Federal Assets-Federal Protective Service</b> United States Immigration and Customs Enforcement
<b>Performance Measure</b>	Percent annual increase in the Facility Security Index
<b>Explanation and Corrective Action</b>	ESTIMATED DATA: Verification/validation of countermeasures implementation will be done against implementation records. The countermeasures effectiveness will be verified against surveys and quality assurance audits to ensure that the procedures and scoring criteria are accurately applied.

## STRATEGIC GOAL 4 - RESPONSE

<b>Program</b>	<b>Response</b> Emergency Preparedness and Response
<b>Performance Measure</b>	(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.
<b>Explanation and Corrective Action</b>	ESTIMATED DATA: Because of the extraordinary commitment of time and personnel required in response to Hurricanes Katrina, Rita and Wilma, which struck at the end of fiscal year 2005, all performance figures for FEMA’s Response Program are reported as of the end of the third quarter of fiscal year (June 30, 2005). At that time, FEMA’s Response Program was on track for three of its four performance elements. Final end-of-year results will be reported in the fiscal year 2006 Performance and Accountability Report.
<b>Program</b>	<b>Interoperability &amp; Compatibility</b> Science and Technology Directorate
<b>Performance Measure</b>	Improve emergency response interoperability and compatibility to strengthen public safety preparedness and response.
<b>Explanation and Corrective Action</b>	INADEQUATE RELIABILITY: The first step in developing interoperable technologies is to create criteria by which a particular technology must be compatible. Originally the Office for Interoperability and Compatibility projected the development of such criteria to be completed in fiscal year 2005, but later decided that a different measure would be more telling of performance. In July/August 2004, S&T chose this measure because it was thought to be a good indicator of performance and would be measurable. It was discovered in fiscal year 2005 that it was not measurable with reasonable cost and a new measure will be used in the future. Note: Data reported against target does not meet all OMB standards of reliability. See section on Completeness and Reliability.

## STRATEGIC GOAL 5 - RECOVERY

<b>Program</b>	<b>Recovery</b> Emergency Preparedness and Response
<b>Performance Measure</b>	Percent 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; and (E) reduction in Individual Recovery Assistance processing cycle time; (F) percentage completion of catastrophic disaster recovery plan.
<b>Explanation and Corrective Action</b>	ESTIMATED DATA: Survey data are collected, analyzed and reported by outside contractors using methods that guarantee both validity and reliability. Cycle time data are reliable as verified by several years experience in use and can be checked manually at various points in the application processing cycle. Improvements to the National Emergency Management Information System (NEMIS) and Integrated Financial Management Information System (IFMIS) systems should increase reliability of financial data by 2006.

## 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, fuse, and analyze all terrorism and threat related intelligence.

**Objective 1.2** - Identify and assess the vulnerability of critical infrastructure and key assets.

**Objective 1.3** - Provide timely, actionable, accurate, and relevant information based on intelligence analysis and vulnerability assessments to homeland security partners, including the public.

**Objective 1.4** - Develop a Common Operating Picture for domestic situational awareness, including air, land, and sea.

Detailed information concerning actual performance during fiscal year 2005 to achieve this goal is provided below.

### STRATEGIC GOAL 1 - AWARENESS

**Performance Goal:**

Improve ability to provide focused information on threats to the U.S. homeland that allows Federal, state, local, tribal and private sector officials to take meaningful protective action.

<b>Performance Measure:</b>	Number of information analysis products that address or directly support requirements of the Department.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	217	1796	Met
<b>Description:</b>	This figure includes the full range of analytic products, from daily intelligence summaries to strategic assessments to red-cell products, all of which support requirements of the Department.				
<b>Explanation of FY 2005 Results:</b>	While we successfully accomplished our target, we recognize this measure is more output based than performance outcome based. We intend to discontinue the measure and replace it with an outcome-based performance measure more closely tied to the program's objectives and the Department's and the Office of the Director of National Intelligence's strategic plan.				
<b>Objective(s) Supported:</b>	1.3				
<b>Program:</b>	Infrastructure Vulnerability & Risk Assessment - Information Analysis and Infrastructure Protection Directorate				

## STRATEGIC GOAL 1 - AWARENESS

### Performance Goal:

As stated in the fiscal year 2005 Annual Performance Plan: Improve DHS contribution to national level and interagency decision-making through leveraging Department-wide information analysis capabilities and actively participating in the National and Homeland Security Communities.

As enhanced to better reflect near term program performance: Provide National operational communications and information sharing during domestic incidents; collect and fuse information to deter, detect, and prevent terrorist incidents and maintain and share domestic situational awareness.

<b>Performance Measure:</b>	Number of information analysis community member organizations with which the Information Analysis and Infrastructure Protection (IAIP) Directorate is integrated.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	3	4	Met
<b>Description:</b>	This measure is an indicator of our integration with the Intelligence Community, an important objective of the Intelligence Reform and Terrorism Prevention Act. IAIP was integrated with 3 organizations for the first three quarters of the year and 4 organizations during the fourth quarter.				
<b>Explanation of FY 2005 Results:</b>	While we successfully accomplished our target, we recognize this measure is more output based than performance based. We intend to discontinue the measure and replace it with an outcome-based performance measure more closely tied to the program's objectives and the Department's and the Office of the Director of National Intelligence's strategic plan.				
<b>Objective(s) Supported:</b>	1.1, 1.2				
<b>Program:</b>	Evaluations and Studies - Information Analysis and Infrastructure Protection Directorate				

<b>Performance Measure:</b>	Percentage of federal, state and local agencies that maintain connectivity with the Homeland Security Operations Center (HSOC) via the Homeland Security Information Network (HSIN), and participate in information sharing and collaboration concerning infrastructure status, potential threat, and incident management information.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	33% (Baseline Estimate)	7%	Not Met
<b>Description:</b>	The information created by HSOC is only useful if it reaches its targeted audience. HSOC will measure the number of Federal, state, tribal, and private sector partners it establishes and maintains as members of its user community. Performance will be measured as a percentage of the total target audience.				
<b>Explanation of FY 2005 Results:</b>	The 7 percent represents only the percentage of state and local connections of the targeted users. The optimal number of targeted Federal users is being explored. Connecting and training federal partners is ahead of schedule and Federal membership in FY 2005 has increased by 6000 users.				
<b>Recommended Action:</b>	The optimal number of targeted Federal users will be established in FY 2006.				
<b>Objective(s) Supported:</b>	1.3, 1.4				
<b>Program:</b>	Homeland Security Operations Center (HSOC) - Information Analysis and Infrastructure Protection Directorate				

## STRATEGIC GOAL 1 - AWARENESS

### Performance Goal:

Support DHS operations and planning functions with timely and actionable intelligence that meets customer requirements.

<b>Performance Measure:</b>	Number of information assessments that will help designers of exercises and crisis simulations create realistic scenarios.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	15	56	Met
<b>Description:</b>	Includes a wide range of products, from assessments to table-top exercises, that help designers of exercises and simulations create realistic scenarios.				
<b>Explanation of FY 2005 Results:</b>	While we accomplished our target, we recognize this measure is more output based than performance outcome based. We intend to discontinue the measure and replace it with an outcome-based performance measure more closely tied to the program's objectives and the Department's and the Office of the Director of National Intelligence's strategic plan.				
<b>Objective(s) Supported:</b>	1.3, 1.4				
<b>Program:</b>	Threat Determination and Assessment - Information Analysis and Infrastructure Protection Directorate				

### Performance Goal:

Function as the lead agency in the development and operation of the National Bio-surveillance Integration System (NBIS) to detect biological and chemical attacks, and coordinate the real-time integration of bio-surveillance data with threat information and recommended responses.

<b>Performance Measure:</b>	Percentage of recommended National Bio-surveillance Integration System (NBIS) process improvement actions that are actually accepted and implemented into the NBIS operating procedures.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	40% (Baseline Estimate)	50%	Met
<b>Description:</b>	Bio-surveillance improves the Federal Government's capability to rapidly identify and characterize a potential bioterrorist attack. Continual monitoring of program performance and incorporation of lessons learned and best practices is part of the overall NBIS program model.				
<b>Explanation of FY 2005 Results:</b>	The NBIS program has been slowed by procurement issues related to the acquisition of large quantities of information technology (IT) in support of information fusion, and the availability of appropriate space to conduct interagency operations. In response to these delays, the Department is developing NBIS Lite. NBIS Lite is a bridging solution that will accelerate NBIS capability so that it is available prior to the acquisition of the full NBIS IT system. In conjunction with the NBIS Lite effort, process improvement suggestions are being submitted by the program team and other stakeholders. Those received are promptly reviewed and assessed by program management. In fiscal year 2005, 50 percent of these submitted suggestions have been accepted and subsequently incorporated into the NBIS Lite workflow processes, leading to improvements in both the effectiveness and efficiency of the system. Successful NBIS Lite process improvements will be carried forward and lessons-learned incorporated into the design of the full NBIS IT system. Note: Data reported against target does not meet all OMB standards of reliability. See section on Completeness and Reliability.				
<b>Objective(s) Supported:</b>	1.1				
<b>Program:</b>	Bio-Surveillance (BIO) - Information Analysis and Infrastructure Protection Directorate				

## STRATEGIC GOAL 1 - AWARENESS

**Performance Goal:**

Identify Critical Infrastructure and Key Resources (CI/KR), and characterize and prioritize these assets based upon the application of appropriate assessment processes and methodologies, using need-specific assessment criteria, sector/segment-specific characterizations, and relevant potential threat information.

<b>Performance Measure:</b>	Percentage of candidate Critical Infrastructure/Key Resource (CI/KR) data call responses (on an asset basis, new, and updates) that are reviewed, researched, and cataloged into the National Asset Data Base (NADB) within 120 days of receipt.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	70%	100%	Met
<b>Description:</b>	The Department carries out vulnerability assessments of critical infrastructure and key assets of the United States, and communicates standards to infrastructure owners and key stakeholders. The nation's asset data submitted to the Protective Security Division (PSD) in response to a fiscal year 2005 data call is catalogued into the NADB promptly so that the information can be available to authorized NADB users. Once assets are identified and their asset-specific information is incorporated into the NADB, this information becomes available for use by PSD and other authorized NADB users for developing various criteria-specific asset lists. Typically, these specialized asset lists enable more effective risk-based CI/KR identification, prioritization, and protective-action/resource-allocation decisions.				
<b>Explanation of FY 2005 Results:</b>	Asset information was submitted to PSD by states and territories throughout fiscal year 2005, in response to a fiscal year 2005 data call issued in July 2004. For fiscal year 2005, data was submitted for over 48,000 assets. This submitted asset information was then reviewed and catalogued into the NADB within 120 days of receipt by PSD. For fiscal year 2005, PSD was able to meet and exceed the target performance level for prompt cataloguing of the submitted asset information into the NADB. This was accomplished by building and maintaining a surge capacity of trained human resources and applying them to NADB tasks on an as-needed/when-needed basis. As a result, the decision-support products developed by PSD throughout the year using the NADB were based on more detailed asset information than would have been available if the performance goal was not met.				
<b>Objective(s) Supported:</b>	1.2				
<b>Program:</b>	Critical Infrastructure Identification and Evaluation (CIIE) - Information Analysis and Infrastructure Protection Directorate				

## STRATEGIC GOAL 1 - AWARENESS

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Meet requirements set forth by DHS component agencies and DHS responsibilities in the National Critical Infrastructure Protection Research and Development Plan.

*As enhanced to better reflect near term program performance:* Produce actionable information and recommend reliable technologies to help protect U.S. critical infrastructure.

<b>Performance Measure:</b>	Percent of critical infrastructure prioritized for threat vulnerability.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	20% (Baseline Estimate)	Percentage not determined.	Not Met
<b>Description:</b>	The National Infrastructure Protection Plan defines the nation's critical infrastructure as consisting of 17 sectors and resources including, but not limited to, Agriculture and Food; Drinking Water and Wastewater Treatment Systems; Energy; Banking and Finance; Telecommunications; Chemical; Transportation Systems; Dams; and Nuclear Reactors, Materials, Waste, etc. The prioritization of critical infrastructure for threat vulnerability is important to help reconcile the use of funds and resources toward protection and mitigation efforts. This prioritization provides decision makers with the information necessary to make determinations on technology development and deployment.				
<b>Explanation of FY 2005 Results:</b>	In July-August 2004, the Science and Technology Directorate established this measure because it was thought to be a good indicator of the Department's performance in protecting the nation's critical infrastructure, and was one that could be measured. It was discovered in fiscal year 2005 that the measure was not a good indicator of the work being performed by the Department's Critical Infrastructure Protection program.				
<b>Recommended Action:</b>	Additional measures have been created that more accurately reflect the program.				
<b>Objective(s) Supported:</b>	1.2, 2.3, 2.4				
<b>Program:</b>	Critical Infrastructure Protection - Science and Technology Directorate				

## STRATEGIC GOAL 1 - AWARENESS

**Performance Goal:**

Develop an effective suite of countermeasures against radiological and nuclear threats with capabilities in detection and intelligence analysis.

**Performance Measure:** Number of Federal, state and local sites that are integrated into an operational secondary reach-back architecture to resolve radiological and nuclear alarms.

Fiscal Year:	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Results
<b>Target/Actual Indicator:</b>	N/A	N/A	5	60	Met
<b>Description:</b>	The program will be measured by the number of sites integrated into a national secondary reach-back system. This reach-back system provides technical assessment and evaluation to operational field users in interpreting data derived from radiation detection equipment. This function is part of the Domestic Nuclear Detection Office (DNDO) mission to provide technical support to the Department's operational elements as part of an overall domestic nuclear detection system.				
<b>Explanation of FY 2005 Results:</b>	Radiation portal monitors have been deployed to approximately 60 Customs and Border Patrol (CBP) Ports of Entry (POEs), all of which are directly integrated into the secondary reach-back architecture. Additionally, personal radiation detectors (PRDs) are deployed to all ~310 CBP POEs, each of which is also nominally integrated into the reach-back system.				
<b>Objective(s) Supported:</b>	1.1, 1.3, 1.4, 2.3, 2.4, 3.1				
<b>Program:</b>	Domestic Nuclear Detection - Science and Technology Directorate				

## STRATEGIC GOAL 1 - AWARENESS

### Performance Goal:

As stated in the fiscal year 2005 Annual Performance Plan: Develop effective capabilities to characterize, assess, and counter new and emerging threats, and to exploit technology developments as they arise.

As enhanced to better reflect near term program performance: Prevent terrorist attacks by developing effective capabilities to characterize, assess, and counter new and emerging threats.

<b>Performance Measure:</b>	Percent of responding recipients indicating the Annual Emerging Threat Assessment Report is valuable.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	Annual report plus a two-year assessment of effectiveness	Assessment of report effectiveness initiated.	Met
<b>Description:</b>	An emerging threats report will be developed over a two year period and then distributed to the appropriate parties/customers. A survey will follow the report that will inquire about the usefulness of the emerging threats report.				
<b>Explanation of FY 2005 Results:</b>	Annual report of findings briefed to the Science and Technology Directorate management and customer survey initiated. However, in consultation with the Office of Management and Budget, it was decided it would be better to use metrics that better measure the performance of the Emerging Threats program such as percentage of customer satisfaction, number of capabilities developed and number of assessments initiated and completed.				
<b>Objective(s) Supported:</b>	1.1				
<b>Program:</b>	Emerging Threats - Science and Technology Directorate				

### Performance Goal:

Develop an effective suite of countermeasures against radiological and nuclear threats with capabilities in response, and preparedness.

<b>Performance Measure:</b>	Progression on planned capability development for Nuclear Incident Management and Recovery.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	Demonstrate two advanced-detection technologies.	Demonstrated two advanced-detection technologies.	Met
<b>Description:</b>	This measure indicates the number of radioactive and nuclear detection technologies that are available for development for incident management and recovery. Technologies that are demonstrated to Department of Homeland Security management are included in the measure.				
<b>Explanation of FY 2005 Results:</b>	A distributed radioactive/nuclear sensor developed by the Environmental Measurements Lab (EML) was demonstrated in New York City. Additionally, Lawrence Livermore National Lab (LLNL) developed and demonstrated an integrated cell phone/radiation detector for use by first-responders for post-event personal safety.				
<b>Objective(s) Supported:</b>	1.1, 1.3, 1.4, 2.3, 2.4, 3.1				
<b>Program:</b>	Radiological & Nuclear Countermeasures - Science and Technology Directorate				

## STRATEGIC GOAL 1 - AWARENESS

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Provide measurable advances in information assurance, threat detection and discovery, linkages of threats and vulnerabilities, and capability assessments and information analysis required by Departmental missions to anticipate, detect, deter, avoid, mitigate, and respond to threats to US homeland security.

*As enhanced to better reflect near term program performance:* Provide measurable advances in threat discovery and awareness, information management and sharing, linkage of threats with vulnerabilities, and capability and motivation assessments for terrorist organizations required to support Departmental missions to anticipate, detect, deter, and mitigate threats to the United States homeland security.

<b>Performance Measure:</b>	Improvement in the national capability to assess threats and vulnerabilities to terrorist attacks: 10 categories to be assessed.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	7	7	Met
<b>Description:</b>	To assess improvement in areas of mission and user relevance, technical competency, management effectiveness, and collaborative efforts with special focus on integration and consolidation, program areas are reviewed in a week-long Threat Awareness Portfolio (TAP) review conducted in April of every year. The review consists of over 60 presentations of current-sponsored research efforts from the national laboratories, private industry, and universities. Generally attending these reviews are the Assistant Secretary for the Office of Plans, Programs and Budget; Science and Technology (S&T) Directorate; customer representatives from Information Analysis and Infrastructure Protection (IAIP) Directorate and Border and Transportation Security Directorate; the S&T Program Analysis and Evaluation staff; Technology Support Working Group representatives; and Program Managers from S&T Directorate Offices.				
<b>Explanation of FY 2005 Results:</b>	Major improvements were demonstrated in collaborative efforts as shown by the vast and varied participation at the TAP review. Improved collaboration among the national laboratories and the commercial and academic institutions working on TAP programs has been accomplished. In addition, operational data sharing among Federal, state and local law enforcement agencies through the all-Weapons of Mass Effect assessment, BorderSafe, Enhanced International Travel Security (EITS - International community) and Inter-agency Center for Applied Homeland Security Technology (ICAHST - Interagency collaborations) activities has been demonstrated. Installation of pilot TAP technologies at IAIP, Customs and Border Protection, and U.S. Immigration and Customs Enforcement is continuing to provide support to their operations. Future funding will encourage the continued focus on integration and consolidation of the academic, industry and national laboratory performers' research efforts in the seven program areas.				
<b>Objective(s) Supported:</b>	1.1, 1.3, 2.1, 2.3				
<b>Program:</b>	Threat and Vulnerability, Testing Assessments - Science and Technology Directorate				

## Strategic Goal 2 - Prevention

**T**he 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 violations of trade and immigration laws.

**Objective 2.2** - Enforce trade and immigration laws.

**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.

**Objective 2.4** - Coordinate national and international policy, law enforcement, and other actions to prevent terrorism.

**Objective 2.5** - Strengthen the security of the nation's transportation systems.

**Objective 2.6** - Ensure the security and integrity of the immigration system.

Detailed information concerning actual performance during fiscal year 2005 to achieve this goal is provided below.

## STRATEGIC GOAL 2 - PREVENTION

### Performance Goal:

To maintain the security of our air, land, and sea borders and transportation systems by providing oversight and coordination of Customs and Border Protection, Immigration and Customs Enforcement, the Transportation Security Administration, the Federal Law Enforcement Training Center, the Office of International Enforcement, and the Screening Coordination and Operations Office.

<b>Performance Measure:</b>	Percentage of Border and Transportation Security (BTS) activities attaining performance targets.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	> 80% (estimate)	66%	Not Met
<b>Description:</b>	The Office of the Under Secretary, Border and Transportation Security (BTS) is responsible for securing our nation's borders and transportation systems. This measure is an overall indicator of the success of the components under the Office to achieve their targets for fiscal year 2005. The measure is a composite of all targets met in 2005 for every BTS organizational unit; Customs and Border Protection (CBP), U.S. Immigration and Customs Enforcement (ICE), Transportation Security Administration (TSA), Federal Law Enforcement Training Center (FLETC), and the Office of Screening Coordination/US-VISIT.				
<b>Explanation of FY 2005 Results:</b>	In fiscal year 2005, 25 of 38 performance goal targets were met, or estimated met, by components of BTS, for a success rate of 66 percent. This evidenced good progress in achieving goals, despite not being at the target level. For fiscal year 2005, CBP met 12 of 20 targets, ICE estimated meeting 2 of 3 targets, TSA met 6 of its targets and did not meet 2 of its targets, FLETC met 5 of its 6 target, and the Office of Screening Coordination/US-VISIT met its target.				
<b>Recommended Action:</b>	Actions to achieve performance goal targets that were not met are reported under the respective performance goals of CBP, ICE, TSA, FLETC, and the Office of Screening Coordination/US-VISIT.				
<b>Objective(s) Supported:</b>	2.1, 2.4, 2.5, 2.6, 6.4, 7.2, 7.3				
<b>Program:</b>	Office of the Under Secretary, Border and Transportation Security - Border and Transportation Security Directorate				

## STRATEGIC GOAL 2 - PREVENTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Improve the threat and enforcement information available to decision makers from legacy and newly developed systems for the enforcement of trade rules and regulations and facilitation of U.S. trade.

*As enhanced to better reflect near term program performance:* Improve the ability of threat, enforcement, travel, and trade information to end users to help ensure lawful, secure, and efficient travel and trade into and out of the US.

<b>Performance Measure:</b>	Percent of Trade accounts with access to ACE functionality to manage trade information				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	1%	1%	Met
<b>Description:</b>	This measure indicates the percentage of established Trade accounts that have access to Automated Commercial Environment (ACE) information systems functionality. The number of Trade accounts established, as compared to the target number of accounts, over time demonstrates that the Trade community (shippers, carriers, brokers, etc.) is gaining the benefit of electronic forms and easier access to more complete information regarding shipments.				
<b>Explanation of FY 2005 Results:</b>	Through September 2005, there were 810 ACE Accounts. Growth in the number of ACE accounts is primarily attributable to the successful deployment of ACE cargo processing capabilities at land border ports.				
<b>Objective(s) Supported:</b>	2.3				
<b>Program:</b>	Automation Modernization – Customs and Border Protection				
<b>Performance Measure:</b>	Percent of internal population using ACE functionality to manage trade information				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	8%	8%	Met
<b>Description:</b>	The number of CBP people using ACE, compared to the targeted adoption rate, shows that internal personnel have easier, timelier, access to more complete and sophisticated information than in the past.				
<b>Explanation of FY 2005 Results:</b>	Through September 2005, there are 2,939 unique CBP users, at 24 land border ports, are authorized to access ACE's cargo processing capabilities.				
<b>Objective(s) Supported:</b>	2.3				
<b>Program:</b>	Automation Modernization – Customs and Border Protection				

## STRATEGIC GOAL 2 - PREVENTION

<b>Performance Measure:</b>	Total number of linked electronic sources from CBP and other government agencies for targeting information.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	0	0	Met
<b>Description:</b>	The ability to accurately and efficiently identify a potential risk to border security in any conveyance entering the U.S. is improved by linking data sources from CBP automated systems and other government agencies, through ACE, as a single source for border decision makers.				
<b>Explanation of FY 2005 Results:</b>	Linked electronic sources via ACE targeting platform is not planned to begin until fiscal year 2006.				
<b>Objective(s) Supported:</b>	2.3				
<b>Program:</b>	Automation Modernization – Customs and Border Protection				

<b>Performance Measure:</b>	Percent (%) of time the Treasury Enforcement Communication System (TECS) is available to end users.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	90%	96.15%	Met
<b>Description:</b>	TECS is a CBP mission-critical law enforcement application system designed to identify individuals and businesses suspected of or involved in violation of federal law. TECS is also a communications system permitting message transmittal between the Department's law enforcement offices and other national, state, and local law enforcement agencies. TECS provides access to the Federal Bureau of Investigation's National Crime Information Center (NCIC) and the National Law Enforcement Telecommunication Systems (NLETS) with the capability of communicating directly with state and local enforcement agencies. NLETS provides direct access to state motor vehicle departments. As such, this performance measure quantifies, as a percentage in relation to an established service-level objective, the end-user experience in terms of TECS service availability.				
<b>Explanation of FY 2005 Results:</b>	Regularly scheduled maintenance ensures that the operating system and application software is current, and all known problems to date have been patched, directly impacting availability as well as performance by eliminating potential errors.				
<b>Objective(s) Supported:</b>	2.3				
<b>Program:</b>	Automation Modernization - Customs and Border Protection				

## STRATEGIC GOAL 2 - PREVENTION

### Performance Goal:

Deny the use of air, land and coastal waters for conducting acts of terrorism and other illegal activities against, the United States.

<b>Performance Measure:</b>	Percentage of no-launches to prevent acts of terrorism and other illegal activities arising from unlawful movement of people and goods across the borders of the United States.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	Baseline (estimate)	4.41%	Met
<b>Description:</b>	A portion of CBP's aviation fleet remains on ready-alert status to respond quickly to unauthorized air-based border intrusions. No-launches refer to an inability to respond to these intrusions. The lower the percentage of no-launches, the more successful the program is as more interdictions were able to be launched.				
<b>Explanation of FY 2005 Results:</b>	Air and Marine Operations (AMO) has established a no-launch rate of 23 percent as a baseline. AMO records all requests for law enforcement aviation support and success depends on the aircraft becoming airborne. "No launch" activity occurs when the AMO location has been requested to launch and the aircraft is unable to become airborne due to a controllable factor such as inappropriate operational aircrew or aircraft. During FY2005, the actual no launch rate is 4.41 percent, which is well within AMO's target rate of 23 percent. Having appropriate aircraft resources available deters and reduces possible acts of terrorism as well as disrupts the supply and reduces the quantity of drugs entering the U.S.				
<b>Objective(s) Supported:</b>	2.1				
<b>Program:</b>	Air & Marine Operations – Customs and Border Protection				

### Performance Goal:

As stated in the fiscal year 2005 Annual Performance Plan: Prevent potential terrorists from crossing into the U.S., and reduce other unlawful activities along U.S. land borders, by improving our security and control between Ports of Entry.

As enhanced to better reflect near term program performance: Prevent potential terrorists, means of terrorism, or other unlawful activities from entering the US by securing and maintaining control of our borders between the ports of entry.

<b>Performance Measure:</b>	Border miles under Operational Control				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	150 miles	288	Met
<b>Description:</b>	Operational Control, as defined in the National Strategic Plan, is the ability to detect, respond to, and interdict border penetrations in areas deemed as high priority for threat potential or other national security objectives. Operational Control will be achieved in a tactical zone when the level of border security (controlled, managed, monitored) in that specific zone matches the level of threat/risk (High, Medium, or Low).				
<b>Explanation of FY 2005 Results:</b>	The Department exceeded its 150 mile target because prior to formal implementation of the Operational Requirements-Based Budgeting Program (ORBBP), it was already working toward achieving Operational Control of targeted areas of the border. The majority of those targeted areas were urban areas such as San Diego and El Paso. Assessments, in accordance with the definitions of increasing levels of border security, validated that discernable mileage in these areas was already under Operational Control at the creation of ORBBP.				
<b>Objective(s) Supported:</b>	2.1, 2.2, 2.3				
<b>Program:</b>	Border Security and Control between POE's – Customs and Border Protection				

## STRATEGIC GOAL 2 - PREVENTION

### Performance Goal:

Improve the targeting, screening, and apprehension of high-risk international cargo and travelers to prevent terrorist attacks, while providing processes to facilitate the flow of safe and legitimate trade and travel.

<b>Performance Measure:</b>	Average CBP exam reduction ratio for Customs-Trade Partnership Against Terrorism (C-TPAT) member importers compared to Non-C-TPAT importers.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	3.5 times less	4.1 times less	Met
<b>Description:</b>	By enrolling in C-TPAT, members follow security procedures to secure the supply chain. This results in reduced exams, thereby helping facilitate the flow of trade. This performance measure indicates the impact of C-TPAT exam reduction benefits on C-TPAT importer exams. The ratio measures the exam reduction ratio of C-TPAT member importers compared to Non-C-TPAT importers.				
<b>Explanation of FY 2005 Results:</b>	In the first full fiscal year for this measure the Department exceeded expectations. The target rate was based on the actual fourth quarter data from fiscal year 2004. C-TPAT is based on the CBP's need to utilize risk management principles to drive key mission functions such as import cargo targeting and examinations. The goal of this measure is to ensure that certified C-TPAT importers are receiving a decreased rate of import cargo examinations compared to Non-C-TPAT companies.				
<b>Objective(s) Supported:</b>	2.1, 2.2, 2.3, 6.4				
<b>Program:</b>	Border Security Inspections and Trade Facilitation at POE's – Customs and Border Protection				
<b>Performance Measure:</b>	Compliance rate for Customs-Trade Partnership Against Terrorism (C-TPAT) members with the established C-TPAT security guidelines.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	98%	97.0%	Not Met
<b>Description:</b>	Indicates the percentage of C-TPAT member whose security procedures have been validated by CBP and found to be acceptable and meet the C-TPAT security guidelines.				
<b>Explanation of FY 2005 Results:</b>	This was the first full fiscal year for this measure. The target was based on the actual fourth quarter data from fiscal year 2004. The target was not met due to an unexpected number of companies who were not in compliance with their submitted security commitment. The implementation of new-importer security criteria also affected the overall validation compliance rate.				
<b>Recommended Action:</b>	The Department will adjust the target to reflect the actual fiscal year 2005 results. Further evaluation of the target will be required as new C-TPAT security criteria are implemented for more C-TPAT enrollment sectors. C-TPAT will significantly increase the number of validations to be completed in fiscal year 2006 and implement a new system for measuring C-TPAT security validation performance.				
<b>Objective(s) Supported:</b>	2.1, 2.2, 2.3, 6.4				
<b>Program:</b>	Border Security Inspections and Trade Facilitation at POE's – Customs and Border Protection				

## STRATEGIC GOAL 2 - PREVENTION

STRATEGIC GOAL 2 - PREVENTION					
<b>Performance Measure:</b>	Number of foreign mitigated examinations by category				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	2416	10,000	25,222	Met
<b>Description:</b>	This proxy measure gauges the outcome of increased information sharing and collaboration by collocating Container Security Initiative (CSI) customs personnel at foreign ports. The measure is the number of examinations waived that are mitigated by foreign customs sources using their own knowledge of shippers, information from their sources/databases, and intelligence sources to make a decision that an examination is not necessary.				
<b>Explanation of FY 2005 Results:</b>	The increased collaboration of foreign and collocated CSI customs personnel at foreign ports reflected by this proxy measure improves on the goal of targeting, screening, and apprehending high-risk international cargo and travelers to prevent terrorist attacks, while providing processes to facilitate the flow of safe and legitimate trade and travel.				
<b>Objective(s) Supported:</b>	2.1, 2.2, 2.3, 6.4				
<b>Program:</b>	Border Security Inspections and Trade Facilitation at POE's – Customs and Border Protection				
<b>Performance Measure:</b>	Percent of worldwide U.S. destined containers processed through Container Security Initiative (CSI) ports				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	48%	68%	73%	Met
<b>Description:</b>	This measure is the percent of worldwide containers destined for the United States (and their respective bills of lading) processed through CSI ports as a deterrence action to detect and prevent weapons of mass effect and other potentially harmful materials from leaving foreign ports headed to U.S. ports. The goal by 2010 is to process 80 percent of all containers destined for the United States prior to lading at overseas ports. Note: Processed may include any of the following: 1) U.S. destined cargo manifest/bills of lading data reviewed using the Automated Targeting System (ATS), 2) further research conducted, 3) collaboration with host country and intelligence representatives, and/or 4) exam of container.				
<b>Explanation of FY 2005 Results:</b>	Results were achieved due to the opening of Shanghai, Shenzhen and Kaohsiung (three high-volume ports) which added 8.61 percent, 6.68 percent, and 8.76 percent, respectively to the cumulative total.				
<b>Objective(s) Supported:</b>	2.1, 2.2, 2.3, 6.4				
<b>Program:</b>	Border Security Inspections and Trade Facilitation at POE's – Customs and Border Protection				

## STRATEGIC GOAL 2 - PREVENTION

<b>Performance Measure:</b>	Advanced Passenger Information System (APIS) data sufficiency rate (percent).				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	98%	99.1%	98.6%	Not Met
<b>Description:</b>	Accurate transmittal of advance passenger information data for law enforcement queries facilitates decision making and targeting capabilities to identify high risk passengers prior to arrival.				
<b>Explanation of FY 2005 Results:</b>	Carrier compliance rates were 0.40 percent below the target. Results were not met due to an increase in requirements for the number of reportable data elements that placed a greater responsibility for accuracy at the embarkation point.				
<b>Recommended Action:</b>	CBP Advance Passenger Information System (APIS) Account Managers will continue to work with carriers to raise the level of compliance. CBP policy requires that each commercial carrier achieve an APIS accuracy rate of 97 percent for arriving or departing carriers. Nationally, fiscal year 2005 measurements found the carrier industry average exceeding the established CBP standard by 1.61 percent. To help achieve targets, CBP will better align the Department's performance standards with CBP's policy-driven performance standard.				
<b>Objective(s) Supported:</b>	2.1, 2.2, 2.3, 6.4				
<b>Program:</b>	Border Security Inspections and Trade Facilitation at POE's – Customs and Border Protection				

## STRATEGIC GOAL 2 - PREVENTION

<b>Performance Measure:</b>	Border vehicle passengers in compliance with agricultural quarantine regulations (percent compliant).				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	96.4%	93.68%	Not Met
<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.				
<b>Explanation of FY 2005 Results:</b>	The goal for compliance of border vehicle passengers (96.4 percent) for fiscal year 2005 was not met. Fully staffing high-risk ports with trained CBP Agriculture Specialists will increase the Quarantine Material Interceptions (QMIs), which will improve compliance. QMIs are counted as compliant because corrective action is taken at the time of an interception. Analysis indicates that higher rates of interceptions occurred during shifts when Agriculture Specialists were available.				
<b>Recommended Action:</b>	CBP has taken action designed to improve levels of compliance. The increased CBP Agriculture Specialist's staffing and the fiscal year 2005 graduation of 330 CBP Agriculture Specialists (CBPAS) from the 43-day CBPAS Training Academy will provide resources necessary to reach actual performance goals. Additional training for CBPAS continues in port after placement. Cross training curriculums are now in place for CBP Officers to support the Agriculture Specialist at the ports. Targeting strategies and a methodology have been developed at the National Targeting Center to enhance our counter agro-terrorism capabilities. Agriculture Specialists have received Automated Targeting System training and risk management skills to focus on high-risk cargo, including the development of specific selectivity criteria.				
<b>Objective(s) Supported:</b>	2.1, 2.2, 2.3, 6.4				
<b>Program:</b>	Border Security Inspections and Trade Facilitation at POE's – Customs and Border Protection				

## STRATEGIC GOAL 2 - PREVENTION

<b>Performance Measure:</b>	Compliance rate in the air passenger environment (percent of travelers compliant).				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	99.2%	99.3%	99.01%	Not 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 officers targeting 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 Customs and Border Protection. The data are pulled from the Treasury Enforcement Communication System.				
<b>Explanation of FY 2005 Results:</b>	COMPEX is a random sampling process that measures the actual “real-world” occurrence rate of activity against which CBP can assess the effectiveness of its targeting and enforcement activities. In a random sampling program such as COMPEX, the FY “targets” are not expressed as goals to be achieved. They are instead a statistically generated projection of the “expected” level of compliance likely to be found based upon observed results over the previous three years.				
<b>Recommended Action:</b>	When the level of voluntary compliance changes in a significantly negative way, CBP can utilize targeting/enforcement, training, and public outreach programs to influence public awareness and increase voluntary compliance. The fiscal year 2005 air passenger compliance rate, while .29% lower than statistically expected, is still very high by historical standards. CBP should maintain its current mix of enforcement programs and continue its emphasis on additional training.				
<b>Objective(s) Supported:</b>	2.1, 2.2, 2.3, 6.4				
<b>Program:</b>	Border Security Inspections and Trade Facilitation at POE's – Customs and Border Protection				

## STRATEGIC GOAL 2 - PREVENTION

<b>Performance Measure:</b>	Compliance rate in the vehicle passenger environments (percent of travelers compliant).				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	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 FY 2005 Results:</b>	COMPEX is a random sampling process that measures the actual “real-world” occurrence rate of activity against which CBP can assess the effectiveness of its targeting and enforcement activities. In a random sampling program such as COMPEX, the fiscal year “targets” are not expressed as goals to be achieved. They are instead a statistically generated projection of the “expected” level of compliance likely to be found based upon observed results over the previous three years.				
<b>Objective(s) Supported:</b>	2.1, 2.2, 2.3, 6.4				
<b>Program:</b>	Border Security Inspections and Trade Facilitation at POE’s – Customs and Border Protection				
<b>Performance Measure:</b>	Compliance rate in the vehicle passenger environments (percent of travelers compliant).				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	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 FY 2005 Results:</b>	COMPEX is a random sampling process that measures the actual “real-world” occurrence rate of activity against which CBP can assess the effectiveness of its targeting and enforcement activities. In a random sampling program such as COMPEX, the fiscal year “targets” are not expressed as goals to be achieved. They are instead a statistically generated projection of the “expected” level of compliance likely to be found based upon observed results over the previous three years.				
<b>Objective(s) Supported:</b>	2.1, 2.2, 2.3, 6.4				
<b>Program:</b>	Border Security Inspections and Trade Facilitation at POE’s – Customs and Border Protection				

## STRATEGIC GOAL 2 - PREVENTION

<b>Performance Measure:</b>	International air passengers in compliance with agricultural quarantine regulations (percent compliant).				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	97%	97%	95.8%	Not Met
<b>Description:</b>	The measure shows CBP's success at maintaining a high level of security in the international air environment by measuring the degree of compliance rate with agricultural quarantine regulations and other mandatory agricultural product restrictions.				
<b>Explanation of FY 2005 Results:</b>	The goal for compliance of air passengers (97 percent) for fiscal year 2005 was not met. Fully staffing high-risk ports with trained CBP Agriculture Specialists will increase the Quarantine Material Interceptions (QMIs), which will improve compliance. QMIs are counted as compliant because corrective action is taken at the time of an interception. Analysis indicates that higher rates of interceptions occurred during shifts when Agriculture Specialists were available. Note: The goal was originally set at 95 percent compliance by the United States Department of Agriculture but raised to the current level of 97 percent. The goal has been set at a level that is high by historical standards and will be a challenge to CBP to continue to meet.				
<b>Recommended Action:</b>	CBP has already taken action that will most likely improve levels of compliance. The increased CBP Agriculture Specialist's staffing and the fiscal year 2005 graduation of 330 CBP Agriculture Specialists (CBPAS) from the 43-day CBPAS Training Academy will provide resources necessary to reach actual performance goals. Additional training for CBPAS continues in port after placement. Cross training curriculums are now in place for CBP Officers to support the Agriculture Specialist at the ports. Targeting strategies and a methodology have been developed at the National Targeting Center to enhance our counter agro-terrorism capabilities. Agriculture Specialists have received Automated Targeting System training and risk management skills to focus on high-risk cargo, including the development of specific selectivity criteria.				
<b>Objective(s) Supported:</b>	2.1, 2.2, 2.3, 6.4				
<b>Program:</b>	Border Security Inspections and Trade Facilitation at POE's – Customs and Border Protection				

## STRATEGIC GOAL 2 - PREVENTION

<b>Performance Measure:</b>	Number of pounds of cocaine seized (thousands of pounds at the ports of entry)				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	44.6	43.1	42.8	Not Met
<b>Description:</b>	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.				
<b>Explanation of FY 2005 Results:</b>	The cocaine seizure targets are provided as forecasts of what is likely to be achieved based on statistical analysis (regression analysis) of previous year's data. We do not control what we seize and seizures have always been very irregular over the short term. When the trend is downward, as the trend in total weight of cocaine seized at the POEs has been since fiscal year 2001, the forecast will be downward. This also coincides with the movement from cocaine to heroin production by major drug cartels. The rate of decrease viewed over the last several years indicates that cocaine seizures may be stabilizing, with the total number of cocaine seizures more closely in line with the target than in previous years. The number of narcotics seizures found from our random sampling of incoming vehicles have also been going down for the last few years, indicating that, overall, fewer drugs are actually entering via vehicles.				
<b>Recommended Action:</b>	Over the past four years, our enforcement posture has increased substantially. The number of overall vehicle and cargo exams has increased dramatically. We have greatly increased the number and type of Non Intrusive Inspection (NII) equipment for cargo and mail enforcement, all of which are very effective at detecting cocaine. In addition, our canine teams dedicated to narcotics exams have increased by over 20 percent. CBP should continue maximizing resources for narcotics detection.				
<b>Objective(s) Supported:</b>	2.1, 2.2, 2.3, 6.4				
<b>Program:</b>	Border Security Inspections and Trade Facilitation at POE's – Customs and Border Protection				

## STRATEGIC GOAL 2 - PREVENTION

<b>Performance Measure:</b>	Number of pounds of heroin seized (thousands of pounds at the ports of entry)				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	2.8	3.5	2.3	Not Met
<b>Description:</b>	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.				
<b>Explanation of FY 2005 Results:</b>	The heroin seizure targets are provided as forecasts of what is likely to be achieved based on statistical analysis (regression analysis) of previous year's data. We do not control what we seize and seizures have always been very irregular over the short term. When the trend is downward, as the trend in total weight of heroin seized at the POEs has been for the last four years, the forecast will be downward. The number of narcotics seizures found from our random sampling of incoming vehicles have also been going down for the last few years, indicating that, overall, fewer drugs are actually entering via vehicles.				
<b>Recommended Action:</b>	Over the past four years, our enforcement posture has increased substantially. The number of overall vehicle and cargo exams has increased dramatically. We have greatly increased the number and type of NII equipment for cargo and mail enforcement, all of which are very effective at detecting heroin. In addition, our canine teams dedicated to narcotics exams have increased by over 20 percent. CBP should continue maximizing resources for narcotics detection.				
<b>Objective(s) Supported:</b>	2.1, 2.2, 2.3, 6.4				
<b>Program:</b>	Border Security Inspections and Trade Facilitation at POE's – Customs and Border Protection				

## STRATEGIC GOAL 2 - PREVENTION

<b>Performance Measure:</b>	Number of pounds of marijuana seized (thousands of pounds at the ports of entry)				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	652.8	743	531.7	Not Met
<b>Description:</b>	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.				
<b>Explanation of FY 2005 Results:</b>	The marijuana seizure targets are provided as forecasts of what is likely to be achieved based on statistical analysis (regression analysis) of previous year's data. We do not control what we seize and seizures have always been very irregular over the short term. When the trend is downward, as the trend in total weight of marijuana seized at the POEs has been since FY 2001, the forecast will be downward. This may in part be due to more marijuana being grown in the U.S. as opposed to being imported, as increased U.S. seizures and local law enforcement data suggests. The number of narcotics seizures found from our random sampling of incoming vehicles have also been going down for the last few years, indicating that, overall, fewer drugs are actually entering via vehicles.				
<b>Recommended Action:</b>	Over the past four years, our enforcement posture has increased substantially. The number of overall vehicle and cargo exams has increased dramatically. We have greatly increased the number and type of NII equipment for cargo and mail enforcement, all of which are very effective at detecting marijuana. In addition, our canine teams dedicated to narcotics exams have increased by over 20 percent. CBP should continue maximizing resources for narcotics detection.				
<b>Objective(s) Supported:</b>	2.1, 2.2, 2.3, 6.4				
<b>Program:</b>	Border Security Inspections and Trade Facilitation at POE's – Customs and Border Protection				

## STRATEGIC GOAL 2 - PREVENTION

<b>Performance Measure:</b>	Percent of sea containers examined using Non-Intrusive Inspection (NII) technology.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	5.2%	5%	8.1%	Met
<b>Description:</b>	The measure shows the progress towards increasing security by measuring the percent of sea containers arriving at seaports examined using NII technology.				
<b>Explanation of FY 2005 Results:</b>	<p>CBP currently has one database, called the Port Tracking System (PTS), that tracks cargo conveyance (sea, truck, and rail) examinations. This system, while comprehensive, is based on manual data collection and logging procedures that are not as accurate as the real-time data collected via the new daily NII utilization reporting system that was implemented in fiscal year 2004. This reporting system tracks examination results in real time and provides CBP with a more accurate and timely reporting mechanism. This reporting system is especially important because CBP examines the vast majority of containers with NII technology.</p> <p>The targets specified were based on PTS, but the fiscal year 2005 actual percentages were produced using the more accurate NII reporting system data. In the future, both the NII and the PTS system will be replaced with the Cargo Enforcement Reporting and Tracking System (CERTS). Until CERTS is implemented, we will continue to use the legacy PTS as our system of records.</p>				
<b>Objective(s) Supported:</b>	2.1, 2.2, 2.3, 6.4				
<b>Program:</b>	Border Security Inspections and Trade Facilitation at POE's – Customs and Border Protection				

## STRATEGIC GOAL 2 - PREVENTION

<b>Performance Measure:</b>	Percent of truck and rail containers examined using Non-Intrusive Inspection (NII) technology.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	26.2%	10%	28.9%	Met
<b>Description:</b>	The measure shows the progress towards increasing security by measuring the percent of truck and rail containers arriving at land border ports examined using NII technology.				
<b>Explanation of FY 2005 Results:</b>	<p>CBP currently has one database, called the Port Tracking System (PTS), that tracks cargo conveyance (sea, truck, and rail) examinations. This system, while comprehensive, is based on manual data collection and logging procedures that are not as accurate as the real-time data collected via the new daily NII utilization reporting system that was implemented in fiscal year 2004. This reporting system tracks examination results in real time and provides CBP with a more accurate and timely reporting mechanism. This reporting system is especially important because CBP examines the vast majority of containers with NII technology.</p> <p>The targets specified were based on PTS, but the fiscal year 2005 actual percentages were produced using the more accurate NII reporting system data. In the future, both the NII and the PTS system will be replaced with the Cargo Enforcement Reporting and Tracking System (CERTS). Until CERTS is implemented, we will continue to use the legacy PTS as our system of records.</p>				
<b>Objective(s) Supported:</b>	2.1, 2.2, 2.3, 6.4				
<b>Program:</b>	Border Security Inspections and Trade Facilitation at POE's – Customs and Border Protection				

## STRATEGIC GOAL 2 - PREVENTION

### Performance Goal:

Provide the process based on established law enforcement standards by which law enforcement training programs and facilities are accredited and law enforcement instructors are certified.

<b>Performance Measure:</b>	Number of accreditation managers trained				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	32	73	30	0	Not Met
<b>Description:</b>	This workload measure identifies the number of accreditation managers 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 data source for this measure is the internal-generated class roster. The Office of Accreditation (OAC) personnel collects the data from the class roster of graduates attending the accreditation assessor training.				
<b>Explanation of FY 2005 Results:</b>	In fiscal year 2005, the FLETC Office of Accreditation did not meet its target for accreditation managers trained. The shortfall was driven by a reorganization and redesign of the accreditation process, revision of the FLETA standards and of the AMTP.				
<b>Recommended Action:</b>	A pilot class of the revised AMTP will be conducted in November 2005. For fiscal year 2006, this measure will support the new accreditation program outcome measure. FLETC will continue collect the data on this measure because the accreditation managers are the lynchpin to the implementation of the accreditation process.				
<b>Objective(s) Supported:</b>	2.4				
<b>Program:</b>	Accreditation - Federal Law Enforcement Training Center				

<b>Performance Measure:</b>	Total number of programs accredited and re-accredited through Federal Law Enforcement Training Accreditation (FLETA).				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	2	2	Met
<b>Description:</b>	This is a new measure for fiscal year 2005. This measure identifies the number of programs accredited through FLETA. This program encompasses all federal law enforcement training agencies. Accreditation ensures a disciplined and systematic approach to training. The FLETA Board's responsibility is to approve standards for accreditation of federal law enforcement training and grant Accreditation Certificates to those programs and academies that have successfully completed the FLETA requirements.				
<b>Explanation of FY 2005 Results:</b>	The following programs were accredited by FLETA in fiscal year 2005: 1. the Diplomatic Security Training Center for the Department of State in Dunn Loring, VA-- an academy accreditation, and 2. the Basic Security Officer Training Program for the Department of Energy.				
<b>Objective(s) Supported:</b>	2.4				
<b>Program:</b>	Accreditation - Federal Law Enforcement Training Center				

## STRATEGIC GOAL 2 - PREVENTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Provide access to state-of the-art facilities necessary to deploy knowledgeable and skilled Federal law enforcement agents and officers to enforce laws and regulations, protect the Nation, and interact with the public with respect for individuals and civil liberty

*As enhanced to better reflect near term program performance:* Provide law enforcement agents and officers with the knowledge and skills to fulfill their responsibilities in a safe manner and at the highest level of proficiency.

<b>Performance Measure:</b>	Percentage of requested training programs conducted (Capacity Measure).				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	98.5	98%	98.55%	Met
<b>Description:</b>	This performance measure is an indicator of the percentage of training programs requested by Partner Organizations that are successfully scheduled by the Federal Law Enforcement Training Center (FLETC). This measure enables FLETC to determine if sufficient capacity is available to meet the present and projected future FLETC training requirements.				
<b>Explanation of FY 2005 Results:</b>	FLETC continually reviews and evaluates the facilities to ensure it is responsive and can meet the student capacity demand. FLETC received requests for 1670 classes, of which 24 (center advanced classes) could not be scheduled due to lack of facilities, instructors, or support resources. We have contingency plans that identify and reduce the limiting effects of training constraints--facilities, full-time employees , equipment, technology, etc.				
<b>Objective(s) Supported:</b>	2.4				
<b>Program:</b>	Construction and Improvement - Federal Law Enforcement Training Center				

## STRATEGIC GOAL 2 - PREVENTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan: Provide Federal law enforcement agents and officers, skilled in the latest techniques, to enforce laws and regulations, protect the Nation, and interact with the public with respect for individuals and civil liberty.*

*As enhanced to better reflect near term program performance: Provide law enforcement agents and officers with the knowledge and skills to fulfill their responsibilities in a safe manner and at the highest level of proficiency.*

<b>Performance Measure:</b>	Percentage of federal supervisors that rate their FLETC basic training graduate's preparedness as good or excellent				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	73.4	73%	90%	Met
<b>Description:</b>	This performance measure indicates the percentage of federal supervisors of FLETC basic training graduates who, after eight to twelve months of observation, indicate their law enforcement officers or agents are highly prepared to perform their entry-level duties and responsibilities. FLETC 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.				
<b>Explanation of FY 2005 Results:</b>	The supervisors' feedback provides the FLETC with a continuous assessment and validation of our training programs. This helps to ensure that law enforcement officers and agents receive the right training to keep pace with the changing criminal and law enforcement environment.				
<b>Objective(s) Supported:</b>	2.4				
<b>Program:</b>	Federal Law Enforcement Training - Federal Law Enforcement Training Center				

## STRATEGIC GOAL 2 - PREVENTION

### Performance Goal:

*As stated in the fiscal year 2005 Annual Performance Plan: Provide international law enforcement agents and officers, skilled in the latest techniques to fulfill their law enforcement responsibility and to help foreign nations fight terrorism.*

*As enhanced to better reflect near term program performance: Provide law enforcement agents and officers with the knowledge and skills to fulfill their responsibilities in a safe manner and at the highest level of proficiency.*

<b>Performance Measure:</b>	Percentage of students that express excellent or outstanding on the Student Quality of Training Survey (SQTS)				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	64.1	64%	64%	Met
<b>Description:</b>	This performance measure is an indicator of the degree of training quality received at the FLETC based on the students' feedback. This measure includes instructors, program materials, equipment, etc. FLETC biannually and annually summarizes the feedback from graduates of the Center's basic and advanced training programs. The SQTS is a formal means to identify opportunities for immediate improvements and updates to ensure that the student receive the right skills and knowledge, presented in the right way and right time.				
<b>Explanation of FY 2005 Results:</b>	The students in basic and advanced training programs complete surveys to obtain their views as to the overall quality of training received at the FLETC. The information obtained from these surveys assist the FLETC in the continuing review of program curricula to meet the Partner Organizations mission requirements.				
<b>Objective(s) Supported:</b>	2.4				
<b>Program:</b>	International Law Enforcement Training - Federal Law Enforcement Training Center				

## STRATEGIC GOAL 2 - PREVENTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan: Provide state and local law enforcement agents and officers, skilled in the latest techniques, to enforce laws and regulations, protect the Nation, and interact with the public with respect for individuals and civil liberty.*

*As enhanced to better reflect near term program performance: Provide law enforcement agents and officers with the knowledge and skills to fulfill their responsibilities in a safe manner and at the highest level of proficiency.*

<b>Performance Measure:</b>	Percentage of students that express excellent or outstanding on the Student Quality of Training Survey (SQTS)				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	64.1	64%	64%	Met
<b>Description:</b>	This performance measure is an indicator of the degree of training quality received at the Federal Law Enforcement Training Center (FLETC) based on the student's feedback. This measure includes instructors, program materials, equipment, etc. The biannually and annually summarizes the feedback from graduates of the Center basic training programs. The Student Quality Training Survey is a formal means to identify opportunities for immediate improvements and updates to ensure that the student receive the right skills and knowledge, presented in the right way and right time.				
<b>Explanation of FY 2005 Results:</b>	The students in basic and advanced training programs complete surveys to obtain their views as to the overall quality of training received at the FLETC. The information obtained from these surveys assist the FLETC in the continuing review of program curricula to meet the Partner Organizations mission requirements.				
<b>Objective(s) Supported:</b>	2.4				
<b>Program:</b>	State and Local Law Enforcement Training - Federal Law Enforcement Training Center				

## STRATEGIC GOAL 2 - PREVENTION

**Performance Goal:**

Enable the creation of and migration to a more secure critical information infrastructure.

<b>Performance Measure:</b>	Development of research infrastructure to provide broad-based support to government/university/private sector research communities, through development and support of a cyber security test bed and cyber security data sets collection and dissemination program.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	Prepare demonstration of operational use of cyber security test bed	Multiple demonstrations	Met
<b>Description:</b>	The Department is responsible for holding workshops to demonstrate the cyber security test bed to the government, university, and private sector research communities. These workshops provide a forum for community building, demonstrations, requirements determination, and planning.				
<b>Explanation of FY 2005 Results:</b>	Several workshops were held to demonstrate the cyber security test bed to government, university, and private sector communities. The workshops provided an introduction to the test bed and its associated tools and test methodologies. They showcased the use of the Cyber Defense Technology Experimental Research (DETER) test bed to conduct cyber experiments including Distributed Denial of Service (DDOS), Worm and Border Gateway Protocol (BGP) routing experiments.				
<b>Objective(s) Supported:</b>	2.3, 3.1, 3.2				
<b>Program:</b>	Cyber Security - Science and Technology Directorate				

## STRATEGIC GOAL 2 - PREVENTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Improve explosives detection equipment and procedures for multiple forms of transportation as well as fixed facilities.

*As enhanced to better reflect near term program performance:* Improve explosives countermeasures technologies and procedures to prevent attacks on critical infrastructure, key assets, and the public.

<b>Performance Measure:</b>	Number of pilot tests of standoff detection technologies				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	One rail environment to detect suicide bombs	One rail environment	Met
<b>Description:</b>	The Department uses pilot tests to evaluate explosives countermeasures technologies in operational environments. Results are also used to develop concepts of operations; protocols and procedures; technology training; and lessons learned, to include technical requirements and operational costs. Standoff explosive detection is dependent on location, technology, and environment.				
<b>Explanation of FY 2005 Results:</b>	A pilot program to screen people for improvised explosive devices (IEDs) in a rail station was initiated in fiscal year 2005.				
<b>Objective(s) Supported:</b>	2.1, 2.3, 2.5, 3.2, 3.4				
<b>Program:</b>	Explosives Countermeasures - Science and Technology Directorate				

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Support the development of innovative solutions to enhance homeland security and work with Federal, State, and Local governments and the private sector to implement these solutions. Operate an effective and efficient clearinghouse that will develop, prototype, and commercialize innovative technologies to support the homeland security mission.

*As enhanced to better reflect near term program performance:* Identify and rapidly develop, prototype, and commercialize innovative technologies to thwart terrorist attacks.

<b>Performance Measure:</b>	Percent of technologies prototyped or commercialized.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	3%	11%	Met
<b>Description:</b>	The percentage of technologies prototypes or commercialized is derived by the number of prototypes funded through the Rapid Prototyping program and the number that are accepted by operational end users each year. In fiscal year 2005, a baseline percentage of three percent was established.				
<b>Explanation of FY 2005 Results:</b>	A total of 11 prototypes out of approximately 120 projects funded by the Rapid Prototyping budget have produced prototypes.				
<b>Objective(s) Supported:</b>	2.3				
<b>Program:</b>	Rapid Prototyping - Science and Technology Directorate				

## STRATEGIC GOAL 2 - PREVENTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Establish an integrated infrastructure for determining and developing standards, and test and evaluation protocols for technology used for detecting, mitigating, and recovering from terrorist attacks and also to support other Departmental components' technologies. Provide consistent and verifiable measures of effectiveness of homeland security-related technologies, operators, and systems in terms of basic functionality, interoperability, efficiency, and sustainability. Facilitate the development of guidelines in conjunction with both users and developers.

*As enhanced to better reflect near term program performance:* Develop well-designed standards and test and evaluation protocols for products, services, and systems used by the Department of Homeland Security and its partners to ensure consistent and verifiable effectiveness. Improve the standardization of products and services designed to prevent and respond to terrorist attacks or natural disasters.

<b>Performance Measure:</b>	1) Establish technical standards and test/evaluation protocols for weapons of mass destruction decontamination technologies and analysis tools. 2) Establish and accredit a network of private/public labs to perform testing, evaluation, and certification of weapons of mass destruction emergency response technologies to allow effective procurement and deployment of technologies that will substantially reduce risk and enhance resiliency of the federal, state, and local response capability.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	Develop technical standards and test/evaluation protocols for WMD decontamination technologies. Develop a network of private/public labs to perform testing, evaluation and certification of WMD emergency response technologies.	Technical standards and test/evaluation protocols were developed. A network of private/public labs to perform testing, evaluation and certification of WMD emergency response technologies was developed.	Met
<b>Description:</b>	This measure describes the intent of Science and Technology Directorate's Standards Portfolio to validate the performance of critical decontamination technologies and to build confidence in the methods used by the network of all hazard response laboratories.				
<b>Explanation of FY 2005 Results:</b>	The original performance measures identified by the Standards Portfolio have both become national interagency priorities. The efforts to establish decontamination standards and guidelines, as well as certify and accredit laboratory response networks, are not complete. But, significant accomplishments have been made by the large interagency groups striving to achieve these goals. The Standards Portfolio has been active in supporting these efforts.				
<b>Objective(s) Supported:</b>	2.1, 2.3, 2.4, 2.5, 2.6, 3.1, 3.2, 3.3, 3.7				
<b>Program:</b>	Standards - Science and Technology Directorate				

## STRATEGIC GOAL 2 - PREVENTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Increase the capabilities of mission-focused operational components (BTS, EPR, US Coast Guard, and US Secret Service) to secure the homeland and enhance their ability to conduct their missions.

*As enhanced to better reflect near term program performance:* Develop effective technologies and tools to increase the capabilities of the Department of Homeland Security operational components to execute their mission to secure the homeland.

<b>Performance Measure:</b>	Improved capability of DHS components to secure the homeland as measured by assessment of customer organizations in accomplishing agreed-upon areas of assistance via the S&T Requirements Council (SRC).				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	Design & test customer survey	Tested customer survey for requirements.	Met
<b>Description:</b>	The Science and Technology Requirements Council (SRC) was established to provide the operational components of the Department with a mechanism to bring their operational mission needs to the Science and Technology Directorate. From these needs a set of technology requirements is developed to provide guidance and direction to the various research and development programs operated by Science and Technology Directorate.				
<b>Explanation of FY 2005 Results:</b>	The SRC process has resulted in a revised mission need collection and assessment process which will be implemented in fiscal year 2006. The customer survey has been developed and is partially populated with input from previous meetings.				
<b>Objective(s) Supported:</b>	1.4, 2.1, 2.3, 3.3, 3.4, 3.7, 4.1				
<b>Program:</b>	Support to Department of Homeland Security Components - Science and Technology Directorate				

## STRATEGIC GOAL 2 - PREVENTION

### Performance Goal:

*As stated in the fiscal year 2005 Annual Performance Plan:* Diminish the air cargo terrorist and other criminal activity risk through 100% air cargo screening/inspection of high risk items.

*As enhanced to better reflect near term program performance:* Reduce the probability of a successful terrorist or other criminal attack to the air transportation system by improved passenger and baggage screening processes.

<b>Performance Measure:</b>	Percent of known shipper cargo inspected on passenger aircraft.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	SSI	SSI	Met
<b>Description:</b>	Known shipper cargo is cargo that is tendered to air carriers who in turn certify that the cargo is from shippers known to them and can be confidently transported on passenger aircraft. The Known Shipper Database (KSD) is the only government repository of data regarding Known Shippers and is a key element of TSA's overall Air Cargo Security strategy. The Known Shipper Program contributes towards achieving the objective to identify elevated risk cargo through prescreening a congressionally mandated percentage of air cargo. The percentage is Sensitive Secure Information (SSI).				
<b>Explanation of FY 2005 Results:</b>	The percent of known shipper cargo inspected on passenger aircraft has remained consistently above the required percentage mandated by congress. This has been achieved through continued monitoring procedures and penalties ranging from verbal reprimands to civil penalties in instances of non-compliance.				
<b>Objective(s) Supported:</b>	2.3, 2.5, 3.1				
<b>Program:</b>	Air Cargo - Transportation Security Administration				

## STRATEGIC GOAL 2 - PREVENTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Reduce the probability of a successful terrorist or other criminal attack to the air transportation system by reducing exposure to terrorist or other criminal acts through regulatory compliance activities.

*As enhanced to better reflect near term program performance:* Reduce the probability of a successful terrorist or other criminal attack to the air transportation system by improved passenger and baggage screening processes.

<b>Performance Measure:</b>	Percent of system-wide airport compliance with security regulations.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	96%	96.34%	Met
<b>Description:</b>	To evaluate the transition to a new regulatory inspection strategy, this measure evaluates whether the risk-managed, locally developed aviation security inspection planning process positively impacts the incidence of non-compliance with security regulations. Data is examined to ascertain trends in civil enforcement and non-compliance by regulated entities. The effectiveness of the program is evaluated by viewing its outcomes and outputs through a statistical index of regulatory compliance. This information is beneficial in examining what percentage of airports have system-wide compliance and which airports do not. Those airports that do not have system-wide compliance are examined for possible recommendations or sanctions. This is done in an effort to increase the level of compliance and thereby reduce the probability of a successful terrorist or criminal attack.				
<b>Explanation of FY 2005 Results:</b>	TSA uses a risk-based inspection protocol to ensure that airports remain consistently compliant with all applicable laws and regulations. This inspection methodology ensures that a high level (96.3 percent) of all airports nationwide comply with applicable security regulations. By identifying locations that need additional help, TSA provides needed recommendations or sanctions so that all federalized airports are properly motivated to reach 100 percent compliance.				
<b>Objective(s) Supported:</b>	2.3, 2.5, 3.1				
<b>Program:</b>	Compliance and Enforcement - Transportation Security Administration				

## STRATEGIC GOAL 2 - PREVENTION

### Performance Goal:

*As stated in the fiscal year 2005 Annual Performance Plan:* Reduce the probability of a successful terrorist or other criminal attack to the air transportation system by improved screening of passengers and baggage with effective technology.

*As enhanced to better reflect near term program performance:* Reduce the probability of a successful terrorist or other criminal attack to the air transportation system by improved passenger and baggage screening processes.

<b>Performance Measure:</b>	Baggage Screening Program Index that measures overall program performance through a weighted composite of indicators encompassing effectiveness, cost management, and customer satisfaction. Note: The 2005 baseline data is for a small sample, and are subject to further development, after which better targets can be set for future years based with more comprehensive data.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	3.3	3.2	Not Met
<b>Description:</b>	The Baggage Screening Program Index is a number between one and five, one being the lowest and worst possible score and five being the highest and best possible score. This Index incorporates effectiveness, efficiency and customer satisfaction. It consists of the Probability of Detection weighted at 50 percent, the results of the Customer Satisfaction Index for Aviation (CSI-A), weighted at 25 percent, and the Cost per Person screened weighted at 25 percent. These three components are reported without being aggregated into a single figure. This improves the sensitivity and transparency of the measures that comprises the index while still giving a broad picture of TSA's passenger screening program.				
<b>Explanation of FY 2005 Results:</b>	Although this measure cannot be considered 'Met', it is only slightly lower than the fiscal year 2005 target. There may be a number of factors contributing to why the Index does not indicate any significant changes in performance for the baggage screening program, including machine or screener performance. One factor is the lack of sensitivity in the calculation of the Index. Significant changes in the measure's component need to be realized in order for the Index to indicate improvements. A second factor is that some of the components were already extremely high, leaving little room for upward movement. For example, though the specific probability of detection is classified information, the exacting standards EDS and other screening equipment must meet before being deployed in an airport virtually ensures a very high result for machine performance.				
<b>Objective(s) Supported:</b>	2.3, 2.5, 3.1				
<b>Program:</b>	Screening Technology - Transportation Security Administration				

## STRATEGIC GOAL 2 - PREVENTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Reduce the probability of a successful terrorist or other criminal attack to the air transportation system by improved screening of passengers and baggage with an effective workforce.

*As enhanced to better reflect near term program performance:* Reduce the probability of a successful terrorist or other criminal attack to the air transportation system by improved passenger and baggage screening processes.

<b>Performance Measure:</b>	Passenger Screening Program Index that measures overall program performance through a weighted composite of indicators encompassing effectiveness, cost management, and customer satisfaction. Note: The 2005 baseline data was for a small sample, and are subject to further development, after which better targets can be set for future years based with more comprehensive data.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	3.3	3.75	Met
<b>Description:</b>	The Passenger Screening Program Index is a number between one and five, one being the lowest and worst possible score and five being the highest and best possible score. This number incorporates effectiveness, efficiency and customer satisfaction. It consists of the Probability of Detection weighted at 50 percent, the results of the Customer Satisfaction Index for Aviation (CSI-A), weighted at 25 percent, and the Cost per Person screened weighted at 25 percent. Beginning in fiscal year 2006, the three components will be reported without being aggregated into a single figure. This will improve the sensitivity and transparency of the measures that comprised the index while still giving a broad picture of TSA's passenger screening program.				
<b>Explanation of FY 2005 Results:</b>	The improvement in the index score is a result of improved effectiveness as measured by automated testing. The type and method of automated testing is sensitive security information. Improved training and flexibility in screener scheduling and local management discretion contributed to better test results. There were no significant differences in the results of the 2004-05 customer satisfaction survey from the 2003-04 results, with a high rate of about 80 percent of the people surveyed in both years expressing overall satisfaction with airport screening. This a success in the face of the increasing demands on screeners resulting from the larger numbers of air travelers in fiscal year 2005 than in fiscal year 2004. Changes such as allowing an optimum mix of full-time and part-time screeners to better staff the checkpoints and innovative customer-oriented programs such as "Kidz Lane" for child-friendly screening helped contribute to this success.				
<b>Objective(s) Supported:</b>	2.3, 2.5, 3.1				
<b>Program:</b>	Screener Workforce - Transportation Security Administration				

## STRATEGIC GOAL 2 - PREVENTION

### Performance Goal:

*As stated in the fiscal year 2005 Annual Performance Plan:* The Federal Air Marshal Service's mission is to promote confidence in our nation's civil aviation system through the effective deployment of Federal Air Marshals to detect, deter, and defeat hostile acts targeting U.S. air carriers, airports, passengers, and crews.

*As enhanced to better reflect near term program performance:* To promote confidence in our nation's civil aviation system through effective deployment of Federal Air Marshals to detect, deter, and defeat hostile acts targeting U.S. air carriers, airports passengers, and crews.

<b>Performance Measure:</b>	Number of successful terrorist and other criminal attacks initiated from commercial passenger aircraft cabins with Federal Air Marshal Service (FAMS) coverage.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	0	0	0	Met
<b>Description:</b>	This measure describes how many criminal attacks were initiated from commercial passenger aircraft cabins while at least one Federal Air Marshal was aboard. By maintaining current targets, FAMS has promoted confidence in the civil aviation system and has helped to deter terrorists and criminals from committing hostile acts on the U.S. aviation system.				
<b>Explanation of FY 2005 Results:</b>	The goal was achieved as a result of the combination of FAMS intelligence systems, effective targeted critical flight coverage, and the high level of individual Federal Air Marshal training.				
<b>Objective(s) Supported:</b>	2.5, 3.1				
<b>Program:</b>	Federal Air Marshal Service - Transportation Security Administration				

<b>Performance Measure:</b>	Percentage level in meeting Federal Air Marshal Service (FAMS) mission and flight coverage targets for each individual category of identified risk.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	Classified	Met	Classified	Classified	Met
<b>Description:</b>	Classified				
<b>Explanation of FY 2005 Results:</b>	Classified				
<b>Objective(s) Supported:</b>	2.5, 3.1				
<b>Program:</b>	Federal Air Marshal Service - Transportation Security Administration				

## STRATEGIC GOAL 2 - PREVENTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Reduce the probability of a successful terrorist or other criminal attack to the air transportation system by improved screening of passengers and baggage through recertification.

*As enhanced to better reflect near term program performance:* Reduce the probability of a successful terrorist or other criminal attack to the air transportation system by improved passenger and baggage screening processes.

<b>Performance Measure:</b>	Percent of screeners scoring 85% or greater on annual performance recertification on first attempt -- PART FY 2006 (Screener Training)				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	78.8%	48.67%	Not Met
<b>Description:</b>	This is the percentage of screeners that score 85 percent or greater on knowledge and practical skills/simulation testing on their first attempt. All screeners are retested annually to ensure that the screener workforce has the knowledge and skills needed to perform the screener function and thus reduce the probability of a successful terrorist or other criminal attack. The Aviation and Transportation Security Act (ATSA) requires TSA to conduct and document an annual proficiency review of each individual who is assigned screening duties. TSA has set a long-term goal to have a majority of screeners score approximately 98 percent or greater as opposed to the current 85 percent standard. To achieve this, TSA will use annual incremental targets to facilitate a structured approach to move the screener workforce from above average (or 85 percent) to the outstanding (or 98 percent) long-term goal. In an effort to sustain data validity and eliminate test memorization, proficiency is based solely on first attempt evaluation scores.				
<b>Explanation of FY 2005 Results:</b>	The Fiscal year 2005 actual appears lower than initial targets because of increased testing requirements. Because of new testing requirements, the initial target cannot be compared to the fiscal year 2005 actual. Specifically, in fiscal year 2004, all screeners completed only one job knowledge test (Module 1), either passenger or baggage. In fiscal year 2005, 47 percent of the workforce was required to now take both the passenger and baggage job knowledge tests instead of the previously required one. This was due to the inception of the dual function screener path. In other words, in fiscal year 2005 in order to achieve the target, almost half the screeners needed to achieve 85 percent or greater on two job knowledge tests instead of the single test administered the previous year.				
<b>Objective(s) Supported:</b>	2.3, 2.5, 3.1				
<b>Program:</b>	Screener Support - Transportation Security Administration				

## STRATEGIC GOAL 2 - PREVENTION

### Performance Goal:

Reduce effects (psychological, economic, health) of terrorist activities (before, during, after) on surface transportation systems and on the flow of commerce impacted by transportation systems.

<b>Performance Measure:</b>	Percent of assessed surface critical transportation assets or systems that have identified mitigation strategies to improve their ability (from baseline) to detect, deter, or prevent scenario-based threats as measured by vulnerability assessments				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	Baseline	0.7%	Met
<b>Description:</b>	The Top 100 Nationally Critical Transportation Assets List that will be targeted for assessments is being determined. Following the determination of the sites on this list, TSA will construct physical visits to these sites to determine the vulnerabilities. Once these vulnerabilities have been established, TSA will identify mitigation strategies. This effort began in fiscal year 2005.				
<b>Explanation of FY 2005 Results:</b>	Surface critical transportation assets or systems' are currently defined as those surface oriented assets contained in the "Top 100 Nationally Critical Transportation Assets List." The initial intention for this measure was to determine the percentage based on an as then undetermined number of surface assets. Upon a request by the Department, TSA, in coordination with the Department of Transportation and Department of Defense developed the Top 100 Nationally Critical Transportation Assets List (note: this list does not consist of exactly 100 assets). Only 0.7 percent of those surface assets and systems on the Top 100 Nationally Critical Assets List have been assessed and mitigation strategies identified.				
<b>Objective(s) Supported:</b>	1.2, 2.5				
<b>Program:</b>	Surface Transportation Security - Transportation Security Administration				

## STRATEGIC GOAL 2 - PREVENTION

**Performance Goal:**

As stated in the fiscal year 2005 Annual Performance Plan: Achieve a Navy SORTS (Status Of Resources and Training System) readiness level of 2 (see note) or better 100% of the time for all assets that may be used by combatant commanders in wartime. These readiness levels will indicate that the Coast Guard 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. NOTE: The Navy defines SORTS category level 2 (C-2) as "Unit possesses the resources and is trained to undertake most of the wartime mission(s) for which it is organized or designed."

As enhanced to better reflect near term program performance: Support our national security and military strategies by ensuring assets are at the level of readiness required by the combatant commander.

<b>Performance Measure:</b>	Percent of time that Coast Guard assets included in the Combatant Commander Operational Plans are ready at a Status of Resources and Training System (SORTS) rating of 2 or better.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	78%	76%	100%	69%	Not Met
<b>Description:</b>	<p>This measure uses the Navy SORTS reporting system to assess the readiness of U.S. Coast Guard (USCG) war-fighting assets' capabilities: equipment, logistics, personnel, training and preparedness. The measure is 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 USCG assets are required by DOD Operational Plans. Asset types tracked by this measure include High Endurance Cutters, 110' Patrol Boats and Port Security Units (PSU). This measure is the best indicator of outcome performance because it directly measures the program's stated outcome (readiness to support DOD's specific requirements) with a standardized, fleet-wide methodology. The measure's data source is the Navy SORTS database, which is populated in the field by carefully-reviewed required submissions from each unit's Commanding Officer.</p> <p>* "2 or better" indicates that a unit possesses the resources necessary and is trained to undertake most of its wartime missions.</p>				
<b>Explanation of FY 2005 Results:</b>	In fiscal year 2005, the USCG did not meet its Defense Readiness performance target. The shortfall was driven by two factors: Equipment casualties attributable to an aging cutter fleet and training shortfalls that occurred as a result of low PSU staffing levels (low staffing precludes the accomplishment of both unit and personal training). The fiscal year began with many PSUs still understaffed as a result of demobilization.				
<b>Recommended Action:</b>	The USCG has already begun to correct PSU staffing problems by providing increased monetary incentives to members volunteering for PSU duty. Furthermore, field commanders have adopted a new policy of "selecting and directing" personnel to fill remaining PSU staffing gaps. As a result of these actions, all PSUs have already reached full deployable strength (at the start of fiscal year 2006), and the USCG expects next year's performance to improve accordingly. With regard to equipment casualties that effected readiness, it is expected that continued implementation of the Integrated Deepwater System will reduce such occurrences.				
<b>Objective(s) Supported:</b>	1.1, 1.4, 2.4				
<b>Program:</b>	Defense Readiness - United States Coast Guard				

## STRATEGIC GOAL 2 - PREVENTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Reduce the amount of illegal drugs entering the United States by removing 30 percent of drug flow from maritime sources.

*As enhanced to better reflect near term program performance:* Reduce the flow of illegal drugs entering the U.S. via non-commercial maritime shipping sources.

<b>Performance Measure:</b>	Removal rate for cocaine that is shipped via non-commercial maritime means.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	30.7%	19%	Estimate (as of 9/30/05) 137.5 Metric Tons Seized.	Estimated - Metric Tons Seized.
<b>Description:</b>	The Cocaine Removal Rate is the amount of cocaine lost to the smuggler through seizures (documented in the Drug Enforcement Agency administered Federal-wide Drug Seizure System), jettison, burning and other non-recoverable events (vetted through the Inter Agency Consolidated Counter-Drug Database) divided by the non-commercial maritime cocaine flow through the transit zone (documented in Defense Intelligence Agency's annual Interagency Assessment of Cocaine Movement (IACM) report). Since it is estimated that a 35 percent to 50 percent disruption rate would prompt a collapse of profitability for smugglers, the removal rate measure allows for a direct evaluation of the USCG efforts in disrupting the market as prescribed by National Priority III of the National Drug Control Strategy.				
<b>Explanation of FY 2005 Results:</b>	The 19 percent target for fiscal year 2005 aligns with National Priority III, Disrupting the Market, of the 2004 National Drug Control Strategy promulgated by the Office of National Drug Control Policy. In fiscal year 2004, the USCG removed 30.7 percent (133.4 metric tons) of the Non-Commercial Maritime (NCM) flow of cocaine to the U.S. The USCG anticipates the fiscal year 2005 removal target will be exceeded due to the record-breaking seizures achieved this year. The target for fiscal year 2006 is to remove 22 percent of cocaine shipped via NCM conveyances. Intelligence and interagency cooperation played a vital role in the USCG's removals, enabling field commanders to effectively position assets. We continue to expand the net to seize vessels and arrest individuals for conspiring to support drug smuggling ventures, e.g. logistic support vessels and offload/onload vessels. These seizures resulted in significant intelligence windfalls. Note: The flow rate documented in the IACM report will not be available until after the PAR is published. Final actual will be published in the fiscal year 2006 PAR.				
<b>Objective(s) Supported:</b>	1.1, 1.4, 2.1				
<b>Program:</b>	Drug Interdiction - United States Coast Guard				

## STRATEGIC GOAL 2 - PREVENTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Reduce the 5-year average number of passenger maritime worker fatalities injuries and recreational boating fatalities index to 1,214 or less.

*As enhanced to better reflect near term program performance:* Eliminate maritime fatalities and injuries on our Nation's oceans and waterways.

<b>Performance Measure:</b>	Maritime Injury and Fatality Index.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	1,307	1,293	1,317	1,304	Estimated - Met
<b>Description:</b>	This measure is an index of the five-year average of annual deaths and injuries occurring to passengers and maritime workers, as well as an annual count of recreational boating fatalities. The lower the number of maritime fatalities and injuries the better. This measure represents a valid outcome measure of the USCG's success in ensuring the safety of persons embarked on both commercial and recreational vessels. U.S. law requires that any death or injury beyond first aid that occurs on a U.S. vessel (or a foreign vessel in U.S. waters) be reported directly to the USCG. These reports are investigated by the USCG and documented in the Marine Information for Safety and Law Enforcement (MISLE) database from which all commercial vessel statistics are drawn. Recreational boating casualties, however, are reported to state investigatory bodies who then report their calendar year totals to the USCG. Under Title 33 CFR, only recreational deaths are required to be reported to the USCG by the individual states.				
<b>Explanation of FY 2005 Results:</b>	During fiscal year 2005, the five-year average of passenger and maritime worker fatalities and injuries was 614 while the projected annual number of recreational boating deaths was 690. The total, 1,304, was below the amount estimated prior to the start of the year 2005. These results show the effectiveness of the USCG's commercial vessel safety and recreational boating safety programs. Of note were the creation of a joint port state control regime for the Great Lakes by the United States and Canada, as well implementation of the Safety Management System regulatory strategy which focuses on ensuring corporate and crew procedures are followed. Also, recreational boating safety classes offered by partners in the USCG Auxiliary, U.S. Power Squadrons, and state boating safety agencies were critical in reducing the number of recreational boating accidents during fiscal year 2005. Data on recreational boating fatalities are estimates—actual data for fiscal year 2005 will not be available until November 2005.				
<b>Objective(s) Supported:</b>	1.1, 1.4, 2.5				
<b>Program:</b>	Marine Safety - United States Coast Guard				

## STRATEGIC GOAL 2 - PREVENTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan: Reduce the flow of undocumented migrants entering the U.S. by interdicting or deterring 95 percent of undocumented migrants attempting to enter the U.S. through maritime routes.*

*As enhanced to better reflect near term program performance: Eliminate the flow of undocumented migrants via routes to the U.S.*

<b>Performance Measure:</b>	Percentage of undocumented migrants who attempt to enter the U.S. via maritime routes that are interdicted or deterred.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	85.3%	87.1%	88%	85.5%	Not Met
<b>Description:</b>	The USCG has been charged through Executive Orders and Presidential Decision Directive to enforce the Immigration and Nationality Act. Performance is measured by the percent of undocumented migrants who are interdicted while, or deterred from, attempting to enter the U.S. via maritime routes. Haitian, Cuban, Dominican & Chinese numbers are tracked, as they constitute the majority of the migrant flow entering the U.S. via maritime means. The measure is computed by dividing the number of successful landings by the migrants who actually attempt illegal immigration or were deterred from making an attempt. Subtracting this percentage from 100 percent gives the total migrants interdicted or deterred. The migrant flow is provided by the USCG Intelligence Coordination Center; interdictions and landings are reported by USCG units & other law enforcement agencies. In fiscal year 2006 USCG will track the number of successful landings via maritime means of all nationalities.				
<b>Explanation of FY 2005 Results:</b>	There were 5,830 successful arrivals out of an estimated threat of 40,500 migrants, yielding an 85.5% performance result. The USCG interdicted 9,229 migrants, the second highest amount of any non-mass migration year in the past 20 years. A ten year high of 2,641 Cuban migrants were interdicted, more than double the number interdicted last year (1,225). The USCG interdicted a larger than normal amount of migrants from the Dominican Republic in fiscal year 2004 and 2005 at 5,014 and 3,612 migrants respectively. There were 1,850 Haitian migrants interdicted in 2005, a substantial amount, but less than last year's level of 3,229, which was elevated due to increased political violence and the departure of President Aristide. People's Republic of China (PRC) migrants continue to improve fraudulent documents and clandestine means to enter the United States. The USCG interdicted 32 PRC migrants who attempted to enter LA/LB in shipping containers this year.				
<b>Recommended Action:</b>	The USCG will continue to work with our interagency partners, as well as foreign Navies and USCG, in sharing information and combining authorities & resources to develop a layered defense against maritime migrants. Additionally, the USCG will continue to add advanced sensors to ships and aircraft, such as forward looking infrared cameras that can see in the dark, to improve detection of migrant events.				
<b>Objective(s) Supported:</b>	1.1, 1.4, 2.1, 6.3				
<b>Program:</b>	Migrant Interdiction - United States Coast Guard				

## STRATEGIC GOAL 2 - PREVENTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Limit foreign fishing vessel incursions into the U.S. Exclusive Economic Zone (EEZ) to 190 or less incursions.

*As enhanced to better reflect near term program performance:* Reduce the number of vessel incursions into the United States Exclusive Economic Zone (EEZ).

<b>Performance Measure:</b>	Number of incursions into the U.S. Exclusive Economic Zone.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	153	247	200	171	Met
<b>Description:</b>	This performance measure counts the number of foreign fishing vessel (FFV) incursions into the U.S. Exclusive Economic Zone (EEZ). FFV incursions provide an indication of the adequacy of USCG security efforts within the EEZ. The 3.36 million square mile EEZ includes the sea floor and adjacent waters extending up to 200 nautical miles away from the U.S. and its territories. It is the largest EEZ in the world, containing up to 20 percent of the world's fishery resources. The Magnuson-Stevens Act charges the USCG to enforce fisheries regulations within the zone. USCG units conduct this mission to maintain sovereign control of our maritime borders, protecting fish stocks from foreign exploitation and denying terrorists and other threats from using maritime routes to harm the United States. Data for the measure are collected through external sources and USCG units patrolling the EEZ. The information is consolidated at USCG HQ through monthly messages from the Area Commanders.				
<b>Explanation of FY 2005 Results:</b>	The USCG met the fiscal year 2005 performance goal of 200 or less EEZ incursions. The Gulf of Mexico area is where the vast majority of illegal EEZ incursions take place, and accounted for 157 of the 171 total illegal FFV incursions. 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 (9 incursions in fiscal year 2005). The USCG's ability to maintain near 100 percent presence along the United States-Russia Maritime Boundary Line (MBL) and the Department of State demarche to Russia on policy change to the use of Warning Shot/Disabling Fire in fiscal year 2004 continues to result in a decrease in incursions along the MBL (10 in fiscal year 2004 and 3 in fiscal year 2005).				
<b>Objective(s) Supported:</b>	1.1, 1.4, 2.1				
<b>Program:</b>	Other LE (law enforcement) - United States Coast Guard				

## STRATEGIC GOAL 2 - PREVENTION

**Performance Goal:**

The Office of Detention and Removal Operations will remove all removable aliens.

<b>Performance Measure:</b>	Number of aliens with a final order removed in a quarter/Number of final orders that become executable in the same quarter (demonstrated as a percent).				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	77.7% *	80.7%	81%	65.6%	Estimated - Not Met
<b>Description:</b>	With certain exceptions, an alien illegally in the United States is “removable” when issued a “final order of removal” by an immigration judge. Because the legal proceedings culminating in the judge’s final order can remain pending for years, illegal aliens are often released from Immigration and Customs Enforcement (ICE) custody. While their cases remain pending, they are not removable. When an alien violates the conditions of release from detention by failing to surrender when ordered to do so, Detention and Removal Operations must locate and apprehend the fugitive before effecting his/her removal. This measure indicates the number of aliens removed during a quarter as a fraction of those ordered “remove” during the same quarter—not necessarily the same people. The measure is an approximation that becomes meaningful only as the basis for comparing results from quarter to quarter.				
<b>Explanation of FY 2005 Results:</b>	The removal rate of 65.6 percent fell far below the target for fiscal year 2005, which assumed a fully funded and staffed detention and removal program. Hiring restrictions, attrition, etc. contributed to not meeting the target. Hiring restrictions reduced the number of fugitive operations teams active in fiscal year 2005. A fully operational team apprehends about 500 removable aliens annually. During a team’s formative, break-in period, 125 apprehensions are expected. During fiscal year 2005, 16 fully staffed fugitive operations teams supplemented by 2 teams in development constituted the DRO Fugitive Operations Program. With fewer teams than projected, that program could not meet its performance target. Fewer apprehensions of fugitives meant fewer fugitive removals from the United States.				
<b>Recommended Action:</b>	We anticipate no new hiring restrictions for fiscal year 2006 and out-years. The added staff should alleviate the problem and out-year targets will reflect this change. Targets for fiscal year 2006 and the out-years will be adjusted based upon the effect of hiring restrictions and normal program attrition in fiscal year 2005. Concerning fugitive teams, fiscal year 2006 funding should allow for adding an additional 26 teams for a total of 44 teams.				
<b>Objective(s) Supported:</b>	2.2				
<b>Program:</b>	Detention and Removal - United States Immigration and Customs Enforcement				

## STRATEGIC GOAL 2 - PREVENTION

**Performance Goal:**

Prevent the exploitation of systemic vulnerabilities in trade and immigration that allow foreign terrorists, other criminals, and their organizations to endanger the American people, property, and infrastructure.

<b>Performance Measure:</b>	Percent of completed investigations which have an enforcement consequence (arrest, indictment, conviction, seizure, fine or penalty). Note: The measure was changed from active cases to cases closed so that multi-year cases would be counted only once (upon completion).				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	Baseline	37.9	Met
<b>Description:</b>	More effective immigration and trade enforcement will contribute to enhanced national security as well as to greater deterrence. One way of measuring this effectiveness is to determine the extent to which investigations are completed successfully, i.e., with an enforcement consequence. It should be noted, however, that although many cases arise that are worth pursuing, the potential of an investigation is not known at its inception; therefore, it is to be expected that many cases will be closed each year without an enforcement consequence when it is determined that they are no longer worth further investigation. The measure was changed from active cases to closed cases so that multi-year cases would be counted only once (upon being closed).				
<b>Explanation of FY 2005 Results:</b>	In addition to removing criminals from the street, the goal of an investigation is to expose and close vulnerabilities in various aspects of trade and immigration, i.e., the ways in which criminals manage to get around safeguards that are supposed to prevent their illegal activity, and areas in which such safeguards are lax or do not exist. Successful investigations not only have an enforcement consequence for the criminal, but they also expose such vulnerabilities, and either close them or contribute to their demise. Fiscal year 2005 was a baseline year and data has been collected. Fiscal year 2005 is the first, full reporting year with the consolidation of the Office of Investigations law enforcement data on the Treasury Enforcement Communications System (TECS). Future year targets will be determined upon the final year-end data being analyzed and reviewed by management.				
<b>Objective(s) Supported:</b>	2.2				
<b>Program:</b>	Office of Investigations - United States Immigration and Customs Enforcement				

## Strategic Goal 3 - Protection

**T**he 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.

**Objective 3.2** - Reduce infrastructure vulnerability from acts of terrorism.

**Objective 3.3** - Protect our nation's financial infrastructure against crimes, to include currency and financial payment systems.

**Objective 3.4** - Secure the physical safety of the President, Vice President, visiting world leaders and other protectees.

**Objective 3.5** - Ensure the continuity of government operations and essential functions in the event of crisis or disaster.

**Objective 3.6** - Protect the marine environment and living marine resources.

**Objective 3.7** - Strengthen nationwide preparedness and mitigation against acts of terrorism, natural disasters, or other emergencies.

Detailed information concerning actual performance during fiscal year 2005 to achieve this goal is provided below.

## STRATEGIC GOAL 3 - PROTECTION

### Performance Goal:

*As stated in the fiscal year 2005 Annual Performance Plan:* The Federal Emergency Management Agency will avoid potential property losses, and avoid disaster and other costs totaling 2 billion or more annually; improve the safety of entire U.S. the population through availability of accurate flood risk data; and reduce the risk of natural or manmade disaster in 500 or more communities nationwide each year.

*As enhanced to better reflect near term program performance:* Reduce the impact of natural hazards on people and property through the analysis and reduction of risks and the provision of flood insurance.

<b>Performance Measure:</b>	(A) Potential property losses, disasters, and other costs avoided; (B) Percentage of the population whose safety is improved through availability of accurate flood risk data in Geographic Information System "GIS" format; (C) Number of communities taking or increasing action to reduce their risk of natural or man-made disaster.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	(A) \$1.1 billion (B) 5% (C) 750	(A) \$1.949 billion (B) 15% (C) 735	(A)\$1.757 billion (B) 50% (C) 710	(A)\$1.895 billion (B) 38.6% (C) 1,286	Not Met
<b>Description:</b>	This measure represents an estimate of costs from potential damages, losses and other costs that have been avoided as a result of the Federal Emergency Management Agency's (FEMA) 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.				
<b>Explanation of FY 2005 Results:</b>	In fiscal year 2005, mitigation actions undertaken by states and communities through FEMA's floodplain management and mitigation grant activities resulted in an estimated \$1.895 billion in costs avoided. This measure 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 15 percent in 2004, to 38.6 percent in 2005, and worked with nearly 1,300 communities to initiate or increase current mitigation efforts.				
<b>Recommended Action:</b>	State and regional input received after the Mitigation Program set its targets for flood hazard data coverage caused funds to be reallocated toward less populated communities. This change made it more difficult to reach the 50 percent coverage target in fiscal year 2005. Targets for fiscal year 2006 and beyond are being adjusted to reflect this change.				
<b>Objective(s) Supported:</b>	3.7				
<b>Program:</b>	Mitigation - Emergency Preparedness and Response Directorate				

## STRATEGIC GOAL 3 - PROTECTION

### Performance Goal:

All Federal Departments and Agencies will have fully operational Continuity of Operations (COOP) and Continuity of Government (COG) capabilities.

<b>Performance Measure:</b>	Percentage of (A) Federal Departments and Agencies with fully operational Continuity of Operations (COOP) capabilities and (B) fully operational Continuity of Government (COG) capabilities.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	(A) FY03 actual TBD (B) N/A	(A) 70% B) 75%	(A) 90% (B) 80%	(A) 90% (B) 20%	Not Met
<b>Description:</b>	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.				
<b>Explanation of FY 2005 Results:</b>	Changing and expanding requirements directed by the Homeland Security Council (HSC) have resulted in a revision of the fully-capable criteria for COG. While FEMA made great strides in achieving its COG goal in terms of training, due to the late release of funding in the third quarter of fiscal year 2005, development and implementation of key projects in support of the COG were delayed. This included a delay in efforts to enhance redundant, secure communication nodes, which limited the number of Federal departments and agencies that were able to meet the newly expanded COG criteria. On the positive side, FEMA conducted the first ever government-wide COG exercise in fiscal year 2005, which helped enhanced the ability of the Federal departments and agencies to carry out their COG responsibilities.				
<b>Recommended Action:</b>	In fiscal year 2006, FEMA will identify required systems and procure required equipment to support the HSC's initiative to improve government-wide COG capabilities. FEMA is also entering into an interagency agreement with the Defense Information Systems Agency (DISA) that will assist in the assessment, development and implementation of a secure communications package for all COG participants. Overall, in fiscal year 2006 FEMA will continue to assist Federal departments and agencies in enhancing their COG capabilities in order to ensure the survival of an enduring constitutional government.				
<b>Objective(s) Supported:</b>	3.5				
<b>Program:</b>	National Security - Emergency Preparedness and Response Directorate				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* The Federal Emergency Management Agency (FEMA) will assess targeted percentages of Federal agencies and State governments for compliance with implementation of the National Incident Management System; increase the proportion of respondents reporting they are better prepared to deal with disasters and emergencies as a result of the FEMA training they received; and reduce the rate of loss of life from fire-related events.

*As enhanced to better reflect near term program performance:* Assess Federal and State implementation of the National Incident Management System (NIMS), train the Nation's Disaster and emergency personnel, and reduce loss of life from fire in the United States.

<b>Performance Measure:</b>	(A) 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) percentage of (B1) FEMA and DHS, (B2) Federal Agencies, (B3) State and local governments compliant with the National Incident Management System (NIMS) and (B4) State and local governments in compliance with enhanced effectiveness criteria; (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.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	(A1) 30% (A2) 0 (A3) 0 (B) N/A (C) 83% (D) 4.2%	(A1) N/A (A2) 10% (A3) 5% (B1) 100% (B2) 100% (B3) N/A (B4) N/A (C) 87% (D) 18%	(A1) 13% (A2) None (A3) None (B1) 80 (B2) 84% (B3) N/A (B4) N/A (C) 84.3% (D) 9%	Not Met
<b>Description:</b>	This performance measure combines indicators of FEMA's success in assessing the nation's baseline emergency management capability; implementing of NIMS; training of the nation's firefighters, emergency managers and others with key emergency responsibilities; and reducing deaths caused by fire and fire-related events. Element (A) of this performance measure will be discontinued when the NEMB-CAP concludes in fiscal year 2005. In element (C), data on deaths caused by fire and fire-related events is drawn from the Centers for Disease Control and Prevention, and represents calendar year 2002, the most recent year available.				
<b>Explanation of FY 2005 Results:</b>	Due to the closing of the assessment vehicle used to assess element (A), the target for 2005 shifted to finishing assessments on as many states as possible. The targets previously set for tribal and county jurisdictions were set aside and the target for 2005 was set at 34 percent (19 of 56) of the United States' states and territories. Because many state emergency managers from the 41 states involved in response and sheltering for Hurricanes Katrina and Rita, many assessments were rescheduled into 2006. For element (B), while nearly 100 percent of FEMA's personnel completed NIMS training requirements, additional courses were not ready for implementation. A significant percentage of respondents in (C) said they had had no opportunity to use the skills they had acquired through training, which may have skewed results. In element (D), the target of 18 percent was not achieved, but the 9 percent figure for this year represents an incremental reduction greater than the 3 percent per year intended over the long term.				
<b>Recommended Action:</b>	In fiscal year 2006 the (A) section of this measure will be discontinued when the NEMB-CAP comes to an end. In section (B), FEMA will continue to focus on ensuring 100 percent Federal compliance with NIMS training requirements. For section (C), the National Fire Academy and Emergency Management Institute will continue to provide training to first responders and emergency personnel. In section (D), the U.S. Fire Administration will revise its performance targets for fiscal year 2006 and future years to better align expectations with the project 3 percent per year reduction in fatalities from fire-related events.				
<b>Objective(s) Supported:</b>	3.7				
<b>Program:</b>	Preparedness - Emergency Preparedness and Response Directorate				

## STRATEGIC GOAL 3 - PROTECTION

### Performance Goal:

*As stated in the fiscal year 2005 Annual Performance Plan:* Build strategic partnerships between Department of Homeland Security (DHS)/Information Analysis Infrastructure Protection (IAIP) and critical infrastructure owners & operators to support two-way information sharing.

*As enhanced to better reflect near term program performance:* Improve the protection of critical infrastructure by building strategic partnerships and two-way information sharing.

<b>Performance Measure:</b>	Percent of targeted critical sector infrastructure owner/operators that are Homeland Security Information Network (HSIN) users.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	10% (Baseline estimate)	100%	Met
<b>Description:</b>	It is critical to Homeland Security to develop strategic partnerships with stakeholders across federal, state and local governments, private industry and international communities. The development and maintenance of an organizational structure, operational tools and defined processes are essential to assuring a continuous state of awareness and alertness. This measure will help indicate greater participation and connection to the HSIN for sectors and sub-sectors defined by the Department, thereby encouraging sharing of information about threats, vulnerabilities, incidents, potential protective measures, and best practices that enhance response, mitigation and restoration activities.				
<b>Explanation of FY 2005 Results:</b>	Our target was to pilot HSIN-CS (Cyber Security) with pilot users in 8 sectors by the end of fiscal year 2005. We succeeded with all pilot users as requested by the coordinating bodies in 11 sectors/subsectors: Electric, Food/Ag, Oil and Gas, Nuclear, Postal/Shipping, Non-Profits, Public Transit, Water, Chemical, Dams and Public Health.				
<b>Objective(s) Supported:</b>	3.2				
<b>Program:</b>	Critical Infrastructure Outreach & Partnerships (CIOP) - Information Analysis and Infrastructure Protection Directorate				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**  
Prevent, detect, and respond to Cyber Security Events.

<b>Performance Measure:</b>	Number of Cyber Security work products disseminated.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	50 (Baseline estimate)	466	Met
<b>Description:</b>	Cyber Security advances computer security preparedness and the response to cyber attacks and incidents. The data collected is a count of the number of pieces of informational products distributed by the National Cyber Security Division (NCSA). The data is collected from within the NCSA, from the operational component of the NCSA, Product Branch. The benefit of the cyber products provided to stakeholders (as identified in NCSA's strategic plan) is to increase their awareness of cyber security issues that would lead to, or affect, the reduction of vulnerabilities and lessening the impact of cyber attacks. Stakeholders include Federal agencies; state, local, and tribal governments; non-governmental organizations such as industry and academia; and individual users.				
<b>Explanation of FY 2005 Results:</b>	In fiscal year 2005, the NCSA disseminated 466 cyber products thus exceeding its target of 50 disseminated cyber work products. NCSA had a significant increase in its actual workload and output compared to projections. These cyber products included: alerts, bulletins, web pages, and repositories distributed; exercises conducted/participated in; working groups, conferences, speeches and briefings held or delivered; methodologies, guidance, frameworks developed; and major reports and plans delivered.				
<b>Objective(s) Supported:</b>	3.2				
<b>Program:</b>	Cyber Security (CS) – Science and Technology Directorate				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**

Improve our process and procedures by implementing recommendations of reviewing authorities (i.e. IG, OMB, GAO).

<b>Performance Measure:</b>	Percent of recommendations made by reviewing authorities (i.e., IG, OMB, GAO) that are implemented within 1 year.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	90%	100%	Estimated - Met
<b>Description:</b>	This measure assesses the progress of SLGCP programs in implementing recommendations from independent reviewing authorities. Successful implementation of these recommendations demonstrates SLGCP's progress in improving the management and performance of its programs. SLGCP collects information on recommendations made by independent reviewing authorities and evaluates which recommendations have been implemented within one year.				
<b>Explanation of FY 2005 Results:</b>	Fiscal year 2005 actual results for this measure are estimated and are expected to meet the 90 percent target. Because recommendations are made by reviewing authorities throughout the fiscal year, data on the percent implemented within one year will not be fully available until the end of fiscal year 2006. In addition, recommendations from the Office of Management and Budget's Program Assessment Rating Tool have not been communicated to SLGCP, precluding their implementation and inclusion in the data set. SLGCP has already made significant progress towards its target, successfully addressing 12 out of 12 recommendations on the Port Security Grant Program made by the Office of the Inspector General (OIG). Based on a preliminary analysis of implemented recommendations, the Evaluation and National Assessment Program expects to meet its performance target. Actual fiscal year 2005 results will be reported in the fiscal year 2006 Performance and Accountability Report.				
<b>Objective(s) Supported:</b>	3.7				
<b>Program:</b>	Evaluation and National Assessment Program - State and Local Government Coordination and Preparedness				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**

The health and safety of the public and firefighting personnel against fire and fire-related hazards are minimized by providing direct assistance, on a competitive basis, to fire departments of a State or tribal nation.

<b>Performance Measure:</b>	Number of Firefighter injuries				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	39,672	39,500	Estimated - Met
<b>Description:</b>	This measure evaluates improvements in fire safety and preparedness in jurisdictions receiving fire grants by assessing annual reductions in firefighter injuries. The measure assesses the ultimate impact of fire grant funding on firefighters' preparedness levels in jurisdictions receiving fire grants. Data for the measure relies on annual statistics published by the U.S. Fire Administration (USFA).				
<b>Explanation of FY 2005 Results:</b>	Fiscal year 2005 actual results for this measure are estimated and are expected to meet the target. Actual results are estimated because the measure relies on data provided by USFA. USFA reports this data on firefighter injuries on a lagged schedule to allow for the collection, vetting, and validation of information and data. Because USFA data is published on a lagged schedule, the Fire Grants Program cannot include actual fiscal year 2005 results for the Performance and Accountability Report. However, based on available trend data, it is likely that the program will meet its performance targets for this measure. Due to the limitations on the timeliness of USFA data, the program will cease to use this performance measure. The program has already developed additional outcome measures that can be reported more reliably. Note: Data reported against target does not meet all OMB standards of reliability. See section on Completeness and Reliability.				
<b>Objective(s) Supported:</b>	3.7				
<b>Program:</b>	Fire Act Program – State and Local Government Coordination and Preparedness				

## STRATEGIC GOAL 3 - PROTECTION

<b>Performance Measure:</b>	Number of civilian deaths from fire				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	3,380	3,400	Estimated – Not Met
<b>Description:</b>	This measure evaluates improvements in fire safety and preparedness in jurisdictions receiving fire grants by assessing annual reductions in civilian deaths from fire. The measure assesses the ultimate impact of fire grant funding on improving the safety of civilians from fire. Data for the measure relies on annual statistics published by the National Fire Protection Association (NFPA).				
<b>Explanation of FY 2005 Results:</b>	The performance goal was set at an approximate target level, and the deviation from that level is slight and is based on estimated trend data available at the time. Actual results are estimated because the measure relies on data provided by the National Fire Protection Association (NFPA). NFPA reports this data on civilian deaths on a lagged schedule to allow for the collection, vetting, and validation of information and data. Because NFPA data is published on a lagged schedule, the Fire Grants Program cannot include actual fiscal year 2005 results for the Performance and Accountability Report. Due to the limitations on the timeliness of NFPA data, the program will cease to use this performance measure. Note: Data reported against target does not meet all OMB standards of reliability. See section on Completeness and Reliability.				
<b>Recommended Action:</b>	The Fire Grants Program is developing additional measures that capture program outcomes and are supported by data that is available in a more regular and timely fashion. The program has already developed an additional outcome measure to address performance measurement.				
<b>Objective(s) Supported:</b>	3.7				
<b>Program:</b>	Fire Act Program - State and Local Government Coordination and Preparedness				

## STRATEGIC GOAL 3 - PROTECTION

<b>Performance Measure:</b>	Percent of jurisdictions demonstrating acceptable performance on applicable critical tasks relevant to the fire service in exercises using SLGCP approved scenarios.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	Baseline	42%	Met
<b>Description:</b>	This measure evaluates jurisdictions' performance on Homeland Security Exercise and Evaluation Program (HSEEP) critical tasks relevant to the fire service in homeland security exercises. Measuring improvements in jurisdictions' performance on these critical tasks over time reflects the impact of SLGCP preparedness activities on jurisdictions' overall fire preparedness levels. To measure preparedness levels, critical task analyses relevant to the fire service that are included in exercise after-action reports (AARs) are evaluated using HSEEP Exercise Evaluation Guides (EEGs) to determine whether the jurisdiction's performance met expectations or required improvement. Jurisdictions' performance on each fire-related critical task is analyzed by comparing the results documented in the AAR to the expected outcome described in the EEG.				
<b>Explanation of FY 2005 Results:</b>	In fiscal year 2005 exercises, 42 percent of jurisdictions demonstrated acceptable performance on applicable critical tasks relevant to the fire service. The Fire Grant program delivers critical services to firefighters across the nation each year, resulting in improved fire-related capabilities. Through delivery of these services, the Fire Grant Program enhances the nation's ability to prevent, protect against, respond to, and recover from terrorist attacks and other disasters.				
<b>Objective(s) Supported:</b>	3.7				
<b>Program:</b>	Fire Act Program – State and Local Government Coordination and Preparedness				

## STRATEGIC GOAL 3 - PROTECTION

### Performance Goal:

*As stated in the fiscal year 2005 Annual Performance Plan:* Improve the ability to prevent, respond to or recover from terrorist attacks by performing exercises that demonstrate critical tasks of Federal, State, local, and private sector.

*As enhanced to better reflect near term program performance:* Improve the capability of the nation's first responders to prevent, respond to, and recover from acts of terrorism by periodically exercising together, thereby enhancing the nation's preparedness.

<b>Performance Measure:</b>	Percent of jurisdictions demonstrating acceptable performance on applicable critical tasks in exercises using SLGCP approved scenarios.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	23%	40%	Met
<b>Description:</b>	This measure evaluates jurisdictions' performance on HSEEP critical tasks in homeland security exercises. Measuring improvements in jurisdictions' performance on critical tasks over time reflects the impact of SLGCP preparedness activities on jurisdictions' overall preparedness levels. To measure preparedness levels, critical task analyses included in exercise AARs are evaluated using HSEEP EEGs to determine whether the jurisdiction's performance met expectations or required improvement. Jurisdictions' performance on each critical task is analyzed by comparing the results documented in the AAR to the expected outcome described in the EEG.				
<b>Explanation of FY 2005 Results:</b>	In fiscal year 2005 exercises, 40 percent of jurisdictions demonstrated acceptable performance on applicable critical tasks, far exceeding the target of 23 percent. Exercises funded through the National Exercise Program enable state and local jurisdictions to identify potential homeland security capability shortfalls and to create improvement plans to mitigate these shortfalls, improving overall national preparedness. This measure demonstrates the National Exercise Program's significant contribution to improving the nation's preparedness.				
<b>Objective(s) Supported:</b>	3.7				
<b>Program:</b>	National Exercise Program - State and Local Government Coordination and Preparedness				

## STRATEGIC GOAL 3 - PROTECTION

<b>Performance Measure:</b>	Percentage of action items identified in After-Action Reports (AAR) that were implemented.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	41%	7%	Not Met
<b>Description:</b>	This measure is designed to assess the number of improvement plan action items that jurisdictions implement/execute following SGCLP-funded or supported exercise. Determining the percent of action items that are implemented reflects the impact of the National Exercise Program on jurisdictions' ability to identify and resolve issues and/or preparedness gaps. Data is collected from exercise AARs that include improvement plans and from participating jurisdictions' responses to an online survey on action item implementation.				
<b>Explanation of FY 2005 Results:</b>	In fiscal year 2005, 7 percent of action items identified in AARs were implemented, failing to meet the performance measure target of 41 percent. Funding and time constraints often prevent state and local jurisdictions from implementing recommended actions. In addition, 40 percent of the fiscal year 2005 action items are in the process of being implemented and thus were not reported as fully implemented. The program anticipates that many of these in progress action items will be fully implemented by the end of fiscal year 2006. In addition, many identified action items are intended to take more than one year for full implementation, further skewing the actual results downward. Finally, the fiscal year 2005 calculation of this measure relied heavily on static hardcopy versions of AAR improvement plans rather than on more reliable survey results on action item completion. This factor further skewed the results downwards.				
<b>Recommended Action:</b>	The program's planned implementation of a system to track and analyze improvement plan action items will ensure that all action items are systematically identified, tracked, and analyzed in the future. This planned system will likely increase the data's range and reliability, allowing the program to better track whether long-term action items are being completed on schedule.				
<b>Objective(s) Supported:</b>	3.7				
<b>Program:</b>	National Exercise Program – State and Local Government Coordination and Preparedness				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**

Provide comprehensive infrastructure related modeling, simulation and analytic capabilities to support protective action planning and implementation decision processes.

<b>Performance Measure:</b>	Percent reduction in the number of general warnings issued as compared to the number of sector specific or geographic specific at risk warnings issued.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	5%	100%	Met
<b>Description:</b>	The National Infrastructure Simulation and Analysis Center (NISAC) provides comprehensive modeling and simulation capabilities for the analysis of critical infrastructures, the interdependencies, complexities, and the consequences of disturbances. NISAC modeling and simulation of Critical Infrastructure/Key Resources (CI/ KR) interdependencies support issuance of sector-specific and geographic-specific advisory decisions versus the general advisories that would be needed if this NISAC data was not available.				
<b>Explanation of FY 2005 Results:</b>	On July 7, 2005, the United States Homeland Security Advisory System (HSAS) increased the threat level to orange (high) for the transportation sector (mass transit segment). The rest of the nation remained at yellow (elevated) during this period. No national threat level increases occurred in fiscal year 2005. On August 12, 2005, this sector specific threat level for the transportation sector (mass transit segment) was returned to the yellow (elevated) level.				
<b>Objective(s) Supported:</b>	3.2				
<b>Program:</b>	National Infrastructure Simulation and Analysis Center - Information Analysis and Infrastructure Protection Directorate				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* In partnership with industry and government, ensure immediate interoperable and assured National Security/Emergency Preparedness (NS/EP) converged telecommunications in all situations.

*As enhanced to better reflect near term program performance:* Ensure Government Emergency Telecommunications System (GETS) provides effective communication in all operational circumstances.

<b>Performance Measure:</b>	Government Emergency Telecommunications (GETS) call completion rate during periods of network congestion.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	90% (Baseline estimate)	95.5%	Met
<b>Description:</b>	The Government Emergency Telecommunications Service (GETS) is a White House-directed emergency phone service provided by the National Communications System (NCS) in IAIP Directorate of the Department of Homeland Security. GETS supports federal, state, local, and tribal government, industry, and non-governmental organization (NGO) personnel in performing their National Security and Emergency Preparedness (NS/EP) missions. GETS provides emergency access and priority processing in the local and long distance segments of the Public Switched Telephone Network (PSTN). It is intended to be used in an emergency or crisis situation when the PSTN is congested and the probability of completing a call over normal or other alternate telecommunication means has significantly decreased. GETS is necessary because of the increasing reliance on telecommunications. Data is collected to measure the performance goal and a probability range is derived to determine the completion rate during a period of network congestion. A comparative analysis of various network congestion periods determines effectiveness and efficiency.				
<b>Explanation of FY 2005 Results:</b>	In fiscal year 2005, the National Communications System (NCS) met its annual outcome measure target with an average 95.5 percent Call Completion Rate during periods of network degradation. To meet this target, the NCS supervised and coordinated telecommunications restoration and recovery efforts between government and industry during Hurricanes Katrina and Rita. NCS achieved Wireless Priority Service (WPS) Full Operational Capability (FOC) within the Global System for Mobile (GSM) carriers nationwide and increased WPS user subscriptions to over 23,000. NCS increased total distributed GETS cards to 110,540. Over 32,000 GETS calls were made in support of Hurricane Katrina with a 95 percent success rate.				
<b>Objective(s) Supported:</b>	3.2				
<b>Program:</b>	National Security/Emergency Preparedness Telecommunications (NS/EP) - Information Analysis and Infrastructure Protection Directorate				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**

Build sustainable protective capacity by developing and facilitating the implementation of protection strategies, security best practices and protective programs that reduce the risk from current and emerging threats, based on sector/segment-specific vulnerabilities of Critical Infrastructure/Key Resources (CI/KR).

<b>Performance Measure:</b>	Percentage of completed Technology Application Pilot projects having a successful proof of concept and determined to be suitable for further implementation.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	10% (Baseline estimate)	100%	Met
<b>Description:</b>	The Protective Actions Program assists Federal, state, tribal, local and private sector organizations in devising protection strategies, programs, best practices and other initiatives related specifically to CI/KR risk reduction from terrorist threats. The Protective Security Division (PSD) Protective Measures Demonstration Pilots address security gaps and protection shortfalls identified by CI/KR interdependency analyses, Buffer Zone Protective Plans and Site Assistance Visits results and security needs highlighted by Sector Specific Agencies. A proto-typical pilot under this program takes technology already developed for a particular use and then applies it to fill identified gaps in protective security. This specific performance measure gives insight into the effectiveness of the PSD pilot program pre-screening process. Effective pre-screening of proposed pilot programs enables a maintained focus of resources on protective action ideas that are most likely to lead to beneficial outcomes.				
<b>Explanation of FY 2005 Results:</b>	Of the three PSD Demonstration and Technology Application Pilot Programs that moved forward in fiscal year 2005, two are not yet complete. The completed pilot, the National Surveillance Activity Information Sharing (NSAIS) Program, had a successful proof of concept and has been deemed suitable for further implementation. Although the sample size was smaller than originally expected, the outcome demonstrates that the processes and the go/no go decision criteria being used by PSD to pre-screen pilot project concepts is effective. Funding is pursued only for those protective action concepts that meet the established criteria.				
<b>Objective(s) Supported:</b>	3.2				
<b>Program:</b>	Protective Actions (PA) - Information Analysis and Infrastructure Protection Directorate				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Enhance the capability of states and local jurisdictions to prevent and respond to terrorist attacks through the provision of funds for planning, equipment, training, and exercises.

*As enhanced to better reflect near term program performance:* Enhance the capability of states and territories to prevent, protect, respond, and recover from all-hazard events through the provision of grants.

<b>Performance Measure:</b>	Percent of jurisdictions demonstrating acceptable performance on applicable critical tasks in exercises using State SLGCP approved scenarios.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	23%	40%	Met
<b>Description:</b>	This measure evaluates jurisdictions' performance on HSEEP critical tasks in homeland security exercises. Measuring improvements in jurisdictions' performance on critical tasks over time reflects the impact of SLGCP preparedness activities (including activities supported by the State Preparedness Grants Program) on jurisdictions' overall preparedness levels. To measure preparedness levels, critical task analyses included in exercise AARs are evaluated using HSEEP EEGs to determine whether the jurisdiction's performance met expectations or required improvement. Jurisdictions' performance on each critical task is analyzed by comparing the results documented in the AAR to the expected outcome described in the EEG.				
<b>Explanation of FY 2005 Results:</b>	In fiscal year 2005 exercises, 40 percent of jurisdictions demonstrated acceptable performance on applicable critical tasks, far exceeding the performance target of 23 percent. Funds provided through the State Preparedness Grants Program enable state and local jurisdictions to plan, organize, equip, train, and exercise in order to improve homeland security capabilities each year. This measure demonstrates the program's demonstrated success in improving the nation's preparedness.				
<b>Objective(s) Supported:</b>	3.7				
<b>Program:</b>	State Preparedness Grants Program - State and Local Government Coordination and Preparedness				

## STRATEGIC GOAL 3 - PROTECTION

<b>Performance Measure:</b>	Percent of state and local homeland security agency grant recipients reporting measurable progress towards identified goals and objectives to prevent and respond to terrorist attacks.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	50%	35%	Not Met
<b>Description:</b>	This measure assesses jurisdictions' progress towards goals and objectives identified in individual State and Urban Area Homeland Security Strategies. Demonstrating progress towards identified goals and objectives illustrates improvements in the abilities of state and local homeland security grant recipients to prevent and respond to terrorist attacks. Measurement of progress towards identified goals and objectives is based on project implementation data as reported by grant recipients in Initial Strategy Implementation Plans (ISIPs) and Biannual Strategy Implementation Reports (BSIRs).				
<b>Explanation of FY 2005 Results:</b>	In fiscal year 2005, 35 percent of state and local homeland security grant recipients demonstrated measurable progress, falling short of the 50 percent target. Because 2005 is the first year that data supporting this measure has been collected, the Program did not have baseline performance data to guide the creation of targets. Several other factors also contributed to the Program missing its target. The data available to support this measure is collected from a June 2005 data collection effort, and therefore covers only part of 2005, potentially skewing measurable progress downward. In addition, the current data collection structure captures data only on completed grant recipient projects, which often does not reflect the phased implementation of grant-related projects over the Program's two-year period of performance. Lastly, the data does not include information from all grant recipients due to late reporting, and results may change once the complete set of data is available for analysis.				
<b>Recommended Action:</b>	As additional baseline data is collected and analyzed, the Program will evaluate whether the current targets are overly aggressive and may develop new targets that are more realistic yet still ambitious. In addition, the Program will seek to share available performance data with state and local grant recipients in order to better align state and local priorities with Program outcomes and to improve grant-recipient reporting. Finally, the Program will seek to improve existing data collection structures and to incorporate additional evaluation criteria (e.g., from Grant Monitoring Reports) into its assessments of measurable progress.				
<b>Objective(s) Supported:</b>	3.7				
<b>Program:</b>	State Preparedness Grants Program - State and Local Government Coordination and Preparedness				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* State and local homeland security preparedness professionals have improved knowledge, skills, and abilities in prevention, response, and recovery.

*As enhanced to better reflect near term program performance:* Improve the ability of first responders to prevent, protect against, respond to, and recover from acts of weapons of mass destruction (WMD) terrorism and other disasters by administering a comprehensive training program tailored to responder communities.

<b>Performance Measure:</b>	Average percentage increase in Weapons of Mass Destruction (WMD) and other knowledge skills, and abilities of state and local homeland security preparedness professionals receiving training from pre and post assessments.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	37%	38.5%	Met
<b>Description:</b>	This measure evaluates improvements in state and local homeland security preparedness professionals' knowledge, skills, and abilities due to delivery of training. Measuring these improvements indicates the impact of training services on the nation's preparedness level. The measure is calculated using student self-evaluations administered by SLGCP training partners before and after delivery of training courses.				
<b>Explanation of FY 2005 Results:</b>	State and local homeland security preparedness professionals demonstrated a 38.5 percent increase in weapons of mass destruction (WMD) and other knowledge, skills, and abilities in fiscal year 2005, exceeding the performance measure target. Increases in responders' homeland security knowledge, skills, and abilities, as determined through pre-training and post-training assessments, demonstrate the impact of the State and Local Training Program on improving the capabilities of homeland security professionals to prevent, protect against, respond to, and recover from terrorist attacks and other disasters.				
<b>Objective(s) Supported:</b>	3.7				
<b>Program:</b>	State and Local Training – State and Local Government Coordination and Preparedness				

## STRATEGIC GOAL 3 - PROTECTION

<b>Performance Measure:</b>	Percent of jurisdictions demonstrating acceptable performance on applicable critical tasks in exercises using SLGCP approved scenarios.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	23%	40%	Met
<b>Description:</b>	This measure evaluates jurisdictions' performance on HSEEP critical tasks in homeland security exercises. Measuring improvements in jurisdictions' performance on critical tasks over time reflects the impact of SLGCP preparedness activities (including training) on jurisdictions' overall preparedness levels. To measure preparedness levels, critical task analyses included in exercise AARs are evaluated using HSEEP EEGs to determine whether the jurisdiction's performance met expectations or required improvement. Jurisdictions' performance on each critical task is analyzed by comparing the results documented in the AAR to the expected outcome described in the EEG.				
<b>Explanation of FY 2005 Results:</b>	In fiscal year 2005 exercises, 40 percent of jurisdictions demonstrated acceptable performance on applicable critical tasks, far exceeding the target of 23 percent. Training provided through the State and Local Training Program improves the capabilities of homeland security professionals to prevent, protect against, respond to, and recover from terrorist attacks and other disasters, demonstrating the program's success in improving the nation's preparedness.				
<b>Objective(s) Supported:</b>	3.7				
<b>Program:</b>	State and Local Training – State and Local Government Coordination and Preparedness				
<b>Performance Measure:</b>	The number of state and local homeland security preparedness professionals trained each year.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	385,636	350,000	487,414	Met
<b>Description:</b>	This measure assesses the overall scope and reach of SLGCP's State and Local Training Program. Measuring the number of homeland security preparedness professionals trained each year reflects the impact of SLGCP's Training Program on improving homeland security capabilities. SLGCP's Centralized Scheduling Information Desk (CSID) maintains a database tracking the total number of homeland security preparedness professionals trained each year.				
<b>Explanation of FY 2005 Results:</b>	The State and Local Training Program trained 487,414 state and local homeland security preparedness professionals in fiscal year 2005, meeting the performance measure target. This measure demonstrates the significant breadth of the State and Local Training Program in training hundreds of thousands of homeland security professionals to improve their capabilities, thus increasing the nation's overall preparedness.				
<b>Objective(s) Supported:</b>	3.7				
<b>Program:</b>	State and Local Training – State and Local Government Coordination and Preparedness				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Enhance the capability of participating urban areas to prevent and respond to terrorist attacks through the provision of funds for planning, equipment, training, and exercises.

*As enhanced to better reflect near term program performance:* Through the award of grant funds, improve the protection of our nation's critical transportation systems, high risk urban areas, and critical infrastructure from terrorism, especially explosives and non-conventional threats, that would cause major disruption to commerce and significant loss of life.

<b>Performance Measure:</b>	Percent of jurisdictions demonstrating acceptable performance on applicable critical tasks in exercises using SLGCP approved scenarios.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	Baseline	40%	Met
<b>Description:</b>	This measure evaluates jurisdictions' performance on HSEEP critical tasks in homeland security exercises. Measuring improvements in jurisdictions' performance on critical tasks over time reflects the impact of SLGCP preparedness activities (including activities supported by the Targeted Infrastructure and Capability Grants Program) on jurisdictions' overall preparedness levels. To measure preparedness levels, critical task analyses included in exercise AARs are evaluated using HSEEP EEGs to determine whether the jurisdiction's performance met expectations or required improvement. Jurisdictions' performance on each critical task is analyzed by comparing the results documented in the AAR to the expected outcome described in the EEG.				
<b>Explanation of FY 2005 Results:</b>	In fiscal year 2005 exercises, 40 percent of jurisdictions demonstrated acceptable performance on applicable critical tasks. Funds provided through the Targeted Infrastructure and Capability Grants Program enable state and local jurisdictions to plan, organize, equip, train, and exercise in order to improve homeland security capabilities each year. This measure demonstrates the program's demonstrated success in improving the nation's preparedness.				
<b>Objective(s) Supported:</b>	3.7				
<b>Program:</b>	Urban Areas Security Initiative - State and Local Government Coordination and Preparedness				

## STRATEGIC GOAL 3 - PROTECTION

<b>Performance Measure:</b>	Percent of participating urban area grant recipients reporting measurable progress made towards identified goals and objectives to prevent and respond to terrorist attacks.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	50%	8%	Not Met
<b>Description:</b>	This measure assesses jurisdictions' progress towards goals and objectives identified in individual State and Urban Area Homeland Security Strategies. Demonstrating progress towards identified goals and objectives illustrates improvements in the abilities of state and local homeland security grant recipients to prevent and respond to terrorist attacks. Measurement of progress towards identified goals and objectives is based on project implementation data as reported by grant recipients in Initial Strategy Implementation Plans (ISIPs) and Biannual Strategy Implementation Reports (BSIRs).				
<b>Explanation of FY 2005 Results:</b>	In fiscal year 2005, 8 percent of state and local homeland security grant recipients demonstrated measurable progress, falling short of the 50 percent target. Because 2005 is the first year that data supporting this measure has been collected, the Program did not have baseline performance data to guide the creation of targets. Several other factors also contributed to the Program missing its target. The data available to support this measure is collected from a June 2005 data collection effort, and therefore covers only part of 2005, potentially skewing measurable progress downward. In addition, the current data collection structure captures data only on completed grant recipient projects, which often does not reflect the phased implementation of grant-related projects over the Program's two-year period of performance. Lastly, the data does not include information from all grant recipients due to late reporting, and results may change once the complete set of data is available for analysis.				
<b>Recommended Action:</b>	As additional baseline data is collected and analyzed, the Program will evaluate whether the current targets are overly aggressive and may develop new targets that are more realistic yet still ambitious. In addition, the Program will seek to share available performance data with state and local grant recipients in order to better align state and local priorities with Program outcomes and to improve grant-recipient reporting. Finally, the Program will seek to improve existing data collection structures and to incorporate additional evaluation criteria (e.g., from Grant Monitoring Reports) into its assessments of measurable progress.				
<b>Objective(s) Supported:</b>	3.7				
<b>Program:</b>	Urban Areas Security Initiative - State and Local Government Coordination and Preparedness				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Improve requesting state and local jurisdictions and urban areas capacity and preparedness to prevent, deter, and respond to terrorism incidents by providing Technical Assistance to address performance gaps in disaster response.

*As enhanced to better reflect near term program performance:* Enhance state and local jurisdiction preparedness strategies related to chemical, biological, nuclear, and explosives (CBRNE) terrorism, as well as other hazards such as hurricanes and floods, through the provision of information resources, stand-alone tools, and customized on-site assistance.

**Performance Measure:** Percent of weaknesses addressed by Technical Assistance in fulfillment of strategic goals to prepare, prevent, and respond to terrorism incidents in the State Strategies each year.

Fiscal Year:	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Results
<b>Target/Actual Indicator:</b>	N/A	N/A	85%	87%	Met
<b>Description:</b>	This measure evaluates the ability of the Technical Assistance Program to target services at States' and urban areas' identified weaknesses. The growth of the Technical Assistance Program is related to the weaknesses identified through the State and Urban Area Homeland Security Strategies. The program is designed to help jurisdictions address these weaknesses and to ensure that programmatic development is targeted at the most important areas. For this measure, "weaknesses" are defined as the shortfalls and gaps identified in State and Urban Area Homeland Security Strategies that require assistance. Data supporting this measure is collected from the State and Urban Area Homeland Security Strategies and from Technical Assistance request forms.				
<b>Explanation of FY 2005 Results:</b>	The Technical Assistance Program has successfully exceeded its target of addressing 85 percent of weaknesses identified in state homeland security strategies. Halfway through fiscal year 2005, the Program implemented a revised methodology and target for this measure following the Office of Management and Budget's Program Assessment Rating Tool (PART). To reflect this new methodology and target, results for the Performance and Accountability Report incorporate data from the third and fourth quarters of fiscal year 2005. This measure demonstrates the ability of the Technical Assistance Program to target delivery of services to identified strategic homeland security needs and shortfalls in order to improve states' abilities to prevent, protect against, respond to, and recover from terrorist attacks and other disasters. In fulfilling this performance measure target, the Technical Assistance Program has demonstrated its ability to better prepare the nation's homeland security professionals.				
<b>Objective(s) Supported:</b>	3.7				
<b>Program:</b>	Technical Assistance - State and Local Government Coordination and Preparedness				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* The United States will have a high-performance, well-integrated biological threat agent warning and characterization system that will include sustainable environmental monitoring capability for metropolitan areas; a national security special event system for the nation; and identification of needs for vaccines and therapeutics for people and animals. Longer term research will support the development of biological threat warning and characterization systems that address both current and future threats.

*As enhanced to better reflect near term program performance:* Provide dependable risk analyses, effective systems for surveillance and detection, and reliable bioforensic analysis to protect the nation against biological attacks.

<b>Performance Measure:</b>	Improved capabilities to detect threats in urban areas (Urban Monitoring Program)				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	Increase coverage in top 10 threat cities.	Coverage was increased in top 10 threat cities.	Met
<b>Description:</b>	BioWatch is an early warning system designed to detect the intentional release of select aerosolized biological agents. It is a cornerstone in the comprehensive strategy for countering terrorism. The Biological Countermeasures portfolio intends to improve biological detection capabilities by increasing the current monitoring coverage in the top 10 threat cities.				
<b>Explanation of FY 2005 Results:</b>	The Generation 2 BioWatch enhancement is being deployed in two phases. It involves placement of samplers in additional outside areas, increased laboratory capability, and supporting information technology (IT) to be completed in calendar year 2005. Also, indoor choices for, and placement of, additional sampling capability will be completed in fiscal year 2006.				
<b>Objective(s) Supported:</b>	1.3, 1.4, 3.1, 3.2, 3.4, 3.7				
<b>Program:</b>	Biological Countermeasures - Science and Technology Directorate				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan: Provide effective capabilities to defeat the threat to commercial aircraft posed by man-portable anti-aircraft missiles.*

*As enhanced to better reflect near term program performance: Provide effective and economical capabilities to dramatically reduce the threat to commercial aircraft posed by man portable anti-aircraft missiles.*

<b>Performance Measure:</b>	Number of effective technology/technologies for commercial aircraft to defeat man-portable anti-aircraft missiles identified. Technologies identified, and prototypes developed and tested.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	2 (estimate)	2	Met
<b>Description:</b>	This measure identifies the number of mature military technologies available with application for demonstrations in the commercial aviation environments.				
<b>Explanation of FY 2005 Results:</b>	In July/August 2004, the Science and Technology Directorate chose this measure because it was thought to be a good indicator of performance and would be measurable. It was discovered in fiscal year 2005 that it was not an effective measure of performance and a new measure will be used in the future.				
<b>Objective(s) Supported:</b>	3.2				
<b>Program:</b>	Counter Man-Portable Air Defense System (MANPADS) - Science and Technology Directorate				

## STRATEGIC GOAL 3 - PROTECTION

### Performance Goal:

*As stated in the fiscal year 2005 Annual Performance Plan:* Award SAFETY Act benefits to anti-terrorism technologies that meet the statutory criteria in accordance with the Act and regulation.

*As enhanced to better reflect near term program performance:* Encourage the development and deployment of anti-terrorism technologies by awarding SAFETY Act benefits to homeland security technology producers.

<b>Performance Measure:</b>	Percent of SAFETY Act applications processed within 150 day application cycle.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	75% (estimate)	80%	Met
<b>Description:</b>	The SAFETY Act office is responsible for review and approval of applications for Designation and Certification of Qualified Anti-Terrorism Technologies (QATTs) under the SAFETY Act. The percentage of applications processed within 150 days is important for the encouragement of development and deployment of anti-terrorism technologies. Decisions can be made at a swifter pace when applications are processed in a timely manner. The SAFETY Act reflects the intent of Congress to ensure that the threat of liability does not deter potential sellers from developing and commercializing technologies that could significantly reduce the risk of, or mitigate the effect of, acts of terrorism.				
<b>Explanation of FY 2005 Results:</b>	Of the 113 full applications received since October 1, 2004, 59 have been fully executed. 80 percent of completed applications were processed within the 150 day regulatory time frame exclusive of time waiting for the applicant to respond to a request for information. The remaining 54 applications received within this time period are in process.				
<b>Objective(s) Supported:</b>	3.1				
<b>Program:</b>	SAFETY Act - Science and Technology Directorate				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Significantly increase the number of U.S. students in academic fields relevant to homeland security, including the life and social sciences, foreign languages, and engineering; and engage universities in homeland security-related research.

*As enhanced to better reflect near term program performance:* Engage a broad network of universities to provide high quality research to develop the science and intellectual capacity needed to support the Department of Homeland Security's mission of confronting terrorism and responding to natural disasters and educational programs to increase the number of U.S. students in academic fields related to homeland security.

<b>Performance Measure:</b>	Number of scholars and fellows supported and number of University Centers of Excellence.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	200/4	300/4	Met
<b>Description:</b>	The scholars and fellows are undergraduate students, graduate students, post-doctoral students, American Association for the Advancement of Science Scholars and faculty. The University Centers of Excellence are mission-focused university consortiums that leverage the multi-disciplinary capabilities of universities to address the Department of Homeland Security needs.				
<b>Explanation of FY 2005 Results:</b>	This program increased the number of scholars and fellows by approximately 100 participants. Established the Postdoctoral Research Associateship Program and the Pilot Summer Faculty and Student Research Team Program. The fourth University Center of Excellence was awarded and the three-tier review is complete on the fifth center (Emergency Preparedness and Response Center).				
<b>Objective(s) Supported:</b>	1.3, 2.3, 3.7, 4.1				
<b>Program:</b>	University Programs - Science and Technology Directorate				

## STRATEGIC GOAL 3 - PROTECTION

### Performance Goal:

As stated in the fiscal year 2005 Annual Performance Plan: Obtain a 97% observed domestic compliance rate by commercial fishermen.

As enhanced to better reflect near term program performance: Achieve sustained fisheries regulation compliance on our nation's Oceans.

<b>Performance Measure:</b>	Percent of fishermen complying with federal regulations.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	97%	96.3%	97%	96.4%	Not Met
<b>Description:</b>	The observed compliance rate is the number of USCG domestic fishing vessel boardings without significant violations (violations that result in significant damage or impact to the fisheries resource, significant monetary advantage to the violator or has high regional or national interest), divided by the total number of USCG domestic fishing vessel boardings. Boardings and violations are documented by USCG Report of Boarding Forms. Data from these reports is maintained in the Marine Inspection and Law Enforcement Database. This measure identifies the percent of commercial fishers in the United States complying with federal regulations. The Magnuson-Stevens Fishery Conservation and Management Act specifically tasks the USCG with enforcing fisheries regulations. The compliance rate documents the effectiveness of at-sea enforcement to advance national goals for the conservation and management of living marine resources and their environment.				
<b>Explanation of FY 2005 Results:</b>	Despite a more than 30 percent increase in fisheries boardings over last year, the 96.4 percent compliance rate remained below our goal of 97 percent. More than half of all significant violations detected this year occurred in the Gulf of Mexico and South Atlantic shrimp fisheries, the Atlantic sea scallop, and Northeast groundfish fisheries. Poor economic conditions, new and increasingly complex regulations, and lower Days at Sea allocations are believed to be significant drivers of the high numbers of violations in these fisheries. Despite law enforcement efforts, significant violations in these fisheries are likely to persist until economic conditions improve. Until then, more fishermen will be tempted to justify illegal activity to maintain profitability.				
<b>Recommended Action:</b>	The USCG will continue to strive for higher observed compliance rates by continuing to assign resources as available to meet District threat-based requests, leveraging technology and forging more effective partnerships. As more Ports, Waterways, and Coastal Security (PWCS)-focused assets continue to be brought online, multi-mission stations will be able to return their focus to fisheries law enforcement. Units assigned to other missions will perform fishery boardings on a not-to-interfere basis. Boardings of opportunity are a good way to illustrate to the fishing industry the USCG's continued commitment to fisheries enforcement and also help USCG personnel hone the fishery boarding skills that are so important to the detection and prosecution of significant fishery violations.				
<b>Objective(s) Supported:</b>	1.1, 1.4, 3.6				
<b>Program:</b>	Living Marine Resources (LMR) - United States Coast Guard				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**

As stated in the fiscal year 2005 Annual Performance Plan: Reduce homeland security risk in the maritime domain (The Coast Guard is currently developing a risk-based index to measure the performance of the PWCS mission program. Neither a baseline nor targets have been established yet).

As enhanced to better reflect near term program performance: Reduce homeland security risk in the maritime domain.

<b>Performance Measure:</b>	Ports, Waterways, and Coastal Security Risk Index				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	Full implementation of planned activities geared towards lowering the risk due to terrorism in the maritime domain.	Activities implemented as planned. Risk index was reduced by 3.4%.	Met
<b>Description:</b>	This is a risk-based outcome measure that involves the scoring (by maritime security representatives) of 69 likely high-consequence maritime terrorist attack scenarios with respect to threat, vulnerability, and consequence. Such scoring generates an index number level of "raw risk" that exists in the maritime domain. Next, USCG incremental interventions (both operational and regulatory regime activities) that have taken place throughout the fiscal year are scored against the attack scenarios with regard to the percent decrease in threat, vulnerability and consequence that each has been estimated to have afforded. The resultant measure shows the change in "raw risk" (due, in large part, to things outside of the USCG ability to control) and the reduction in total risk the USCG estimates that it has affected.				
<b>Explanation of FY 2005 Results:</b>	In fiscal year 2005, the Coast Guard met its goal of implementing planned activities geared toward lowering maritime security risk. These included: complete verification of security plans for U. S. port facilities and vessels operating in U. S. waters, achievement of "interim operating capability" for 5 new maritime safety and security teams, completion of 31 foreign port security assessments, and development of explosive detection and anti-small vessel capabilities. The USCG also sustained increased levels of targeted maritime security for 39 days, providing the visibly-demonstrated capability and heightened awareness that disrupts criminal and terrorist planning. The USCG baselined its new PWCS risk reduction outcome index for fiscal year 2005. Scoring applied to specific likely attack scenarios estimates that USCG operational and regulatory activity may have accounted for as much as a 3.4 percent decrease in the total level of quantifiable maritime security risk.				
<b>Objective(s) Supported:</b>	1.1, 1.4, 2.1, 2.5, 3.1, 4.1, 4.2				
<b>Program:</b>	Ports Waterways and Coastal Security - United States Coast Guard				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**

Provide law enforcement, criminal investigations, and physical security protection to reduce and respond to potential threats and vulnerabilities to federal properties thereby providing a safe, secure environment to federal tenants and the visiting public in a cost-effective manner.

<b>Performance Measure:</b>	Percent annual increase in the Facility Security Index				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	baseline	Planned countermeasure implementation versus actual implementation was estimated to be met 90% of the time. Testing showed countermeasures to be effective 92% of the time. Average actual response time was shown to be 46.62 minutes.	Estimated - Met
<b>Description:</b>	The Federal Facilities Security Index quantifies the overall effectiveness of Federal Protective Service (FPS) operations in accomplishing annual performance measurement goals. The index is made up of three components that will reflect: 1) how effective the FPS is in implementing security threat countermeasures (by comparing actual countermeasure implementation to planned implementation); 2) how well the countermeasures are working (by testing of countermeasures); and 3) how efficient FPS is in responding to incident calls for law enforcement by measuring response time. A security index of one (100 percent) or greater reflects accomplishment of, or exceeding, performance targets. A security index of less than one reflects failure to meet performance goals.				
<b>Explanation of FY 2005 Results:</b>	Based on the fiscal year 2005 results, targets for fiscal year 2006 and out-years have been set and they reflect a range of a 6 to 20 percent targeted increase in effectiveness. These measures, built upon a risk-based security program will enable FPS to better protect and reduce vulnerabilities in Federal facilities. FPS' Security Tracking System will be enhanced in fiscal year 2006 to capture planned countermeasure deployment dates thereby eliminating estimated results.				
<b>Objective(s) Supported:</b>	3.1, 3.2, 3.5				
<b>Program:</b>	Protection of Federal Assets-Federal Protective Service - United States Immigration and Customs Enforcement				

## STRATEGIC GOAL 3 - PROTECTION

### Performance Goal:

Protect our Presidential and Vice Presidential Candidates and Nominees.

<b>Performance Measure:</b>	Percentage of Instances Protectees Arrive and Depart Safely.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	100%	100%	100%	Met
<b>Description:</b>	The security of protectees is the ultimate priority of the Secret Service. 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.				
<b>Explanation of FY 2005 Results:</b>	The Campaign Protection Program met its target of providing incident-free protection for the Presidential and Vice Presidential Candidates and Nominees by ensuring the safety of these protectees during their campaign stops; securing three debate sites; and planning and implementing the physical protection for the Presidential Inauguration. Campaign Protection Program utilized a wide-variety of security measures, and coordinated with military and federal, state, local, and international law enforcement agencies to guarantee the safety of its protectees.				
<b>Objective(s) Supported:</b>	3.4				
<b>Program:</b>	Campaign Protection (CP) - United States Secret Service				

### Performance Goal:

Protect our nation's leaders and other protectees.

<b>Performance Measure:</b>	Percentage of Instances Protectees Arrive and Depart Safely.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	100%	100%	100%	100%	Met
<b>Description:</b>	The security of protectees is the ultimate priority of the Secret Service. 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.				
<b>Explanation of FY 2005 Results:</b>	Although the growing number of protectees has increased the demand on the Secret Service, the Domestic Protectees Program met its target of providing incident-free protection for the nation's leaders and other protectees by ensuring their safety at 4,749 travel stops. Travel stops are a count of cities or other definable subdivisions visited by a protectee. The Domestic Protectees Program 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.				
<b>Objective(s) Supported:</b>	3.4				
<b>Program:</b>	Domestic Protectees (DP) - United States Secret Service				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**

Reduce losses to the public attributable to counterfeit currency, other financial crimes, and identity theft crimes that are under the jurisdiction of the Secret Service, which threaten the integrity of our currency and the reliability of financial payment systems worldwide.

<b>Performance Measure:</b>	Counterfeit passed per million dollars of genuine U.S. currency.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	\$58	\$60	\$74	\$80	Not Met
<b>Description:</b>	This measure is an indicator of the proportion of counterfeit currency relative to the amount of genuine U.S. currency in circulation. The measure reports the dollar value of counterfeit notes passed on the public per million dollars of genuine currency. This measure is calculated by dividing the dollar value of counterfeit notes passed by the dollar value of genuine currency in circulation, multiplied by \$1 million.				
<b>Explanation of FY 2005 Results:</b>	The Financial Investigations Program did not meet its goal of restricting counterfeit money being circulated to under \$74 per \$1 million of genuine U.S. currency. The target represents an estimate, and the actual amount can fluctuate due to many factors including an increase in protection activity, thereby diverting investigative resources, and the nature of counterfeiting itself.				
<b>Recommended Action:</b>	The Financial Investigations Program is committed to reducing the amount of counterfeit currency passed on the public, and will continue to disrupt counterfeiting activities through criminal investigations.				
<b>Objective(s) Supported:</b>	3.3				
<b>Program:</b>	Financial Investigations (FI) - United States Secret Service				

<b>Performance Measure:</b>	Financial Crimes Loss Prevented (Billions).				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	\$2.5	\$1.7	\$1.5	\$1.8	Met
<b>Description:</b>	This measure reports an estimate of the direct dollar loss prevented due to Secret Service 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.				
<b>Explanation of FY 2005 Results:</b>	The Financial Investigations Program met its goal of preventing at least \$1.5 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 \$1.8 billion in loss attributable to financial crimes. The Financial Investigations Program is committed to reducing losses to the public that are attributable to financial crimes and identity theft.				
<b>Objective(s) Supported:</b>	3.3				
<b>Program:</b>	Financial Investigations (FI) - United States Secret Service				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**  
Protect visiting world leaders.

<b>Performance Measure:</b>	Percentage of Instances Protectees Arrive and Depart Safely - Foreign Dignitaries.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	100%	100%	100%	100%	Met
<b>Description:</b>	The security of protectees is the ultimate priority of the Secret Service. 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.				
<b>Explanation of FY 2005 Results:</b>	The Foreign Protectees and Foreign Missions Program met its target of providing incident-free protection for visiting world leaders by ensuring the safety of these protectees at 2,274 travel stops during fiscal year 2005. Travel stops are a count of cities or other definable subdivisions visited by a protectee. The number of stops can fluctuate depending on the frequency and pace of world leaders' visits to the United States. The Foreign Protectees and Foreign Missions Program utilized a wide-variety of security measures, and coordinated with military and federal, state, local, and international law enforcement agencies to guarantee the safety of its protectees.				
<b>Objective(s) Supported:</b>	3.4				
<b>Program:</b>	Foreign Protectees and Foreign Missions (FP/FM) - United States Secret Service				

**Performance Goal:**  
Reduce losses to the public attributable to electronic crimes and crimes under the jurisdiction of the Secret Service that threaten the integrity and reliability of the critical infrastructure of the country.

<b>Performance Measure:</b>	Financial Crimes Loss Prevented.(Millions)				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	\$150	\$150	\$556.2	Met
<b>Description:</b>	The USA PATRIOT Act mandates that the Secret Service develop a network of electronic crimes task forces through out the United States. This measure reports and estimate of the direct dollar loss prevented due to the Secret Service'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.				
<b>Explanation of FY 2005 Results:</b>	The Department, through the use of its Electronic Crimes Task Forces, was able to prevent \$556.2 million in losses attributable to infrastructure investigations. This was achieved through the successful proactive investigations of computer-related and telecommunications crimes, which led to the intervention or interruption of criminal ventures.				
<b>Objective(s) Supported:</b>	3.3				
<b>Program:</b>	Infrastructure Investigations - United States Secret Service				

## STRATEGIC GOAL 3 - PROTECTION

**Performance Goal:**

Reduce threats posed by global terrorists and other adversaries.

<b>Performance Measure:</b>	Number of Protective Intelligence Cases Completed.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	3,927	3,992	4,000	4,614	Met
<b>Description:</b>	This measure represents the total number of intelligence cases completed by agents assigned to field operations. These cases generally represent an assessment of individuals or groups who have threatened a protectee of the Secret Service.				
<b>Explanation of FY 2005 Results:</b>	The Protective Intelligence Program evaluated protective-related intelligence on groups, subjects and activities that pose threats to protected individuals, facilities or events. Through these investigative efforts, the Protective Intelligence Program was able to maintain the efficiency of its protective mission without compromising the security of protectees, facilities and events under its protection.				
<b>Objective(s) Supported:</b>	3.4				
<b>Program:</b>	Protective Intelligence (PI) - United States Secret Service				

## Strategic Goal 4 - Response

**T**he 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 response readiness.

**Objective 4.2** - Provide scalable and robust all-hazard response capability.

**Objective 4.3** - Provide search and rescue services to people and property in distress.

Detailed information concerning actual performance during fiscal year 2005 to achieve this goal is provided below.

## STRATEGIC GOAL 4 - RESPONSE

### Performance Goal:

*As stated in the fiscal year 2005 Annual Performance Plan:* The Federal Emergency Management Agency (FEMA) will evaluate all emergency teams and operations through at least one readiness evaluation or exercise; raise the average percentage of evaluated teams and operations achieving fully operational or better status, and raise the evaluated team's one operational level annually; and reduce the average maximum on scene response time.

*As enhanced to better reflect near term program performance:* Consistently achieve fully operational status for all multi-disciplinary response teams, and meet established average response times.

<b>Performance Measure:</b>	(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.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	72 hours for most disasters	(A) None (B) None (C) None (D) 50	(A) 25% (B) 50% (C) N/A (D) 60	AS OF Q3:* (A) 18% (B) 50% (C) N/A (D) 20	Estimated - Met
<b>Description:</b>	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 element(C) in fiscal year 2006.				
<b>Explanation of FY 2005 Results:</b>	* Because of the extraordinary commitment of time and personnel required in response to Hurricanes Katrina, Rita and Wilma, which struck at the end of fiscal year 2005, all performance figures for FEMA's Response Program are reported as of the end of the third quarter of fiscal year (June 30, 2005). At that time, FEMA's Response Program was on track for three of its four performance elements. Final end-of-year results will be reported in the fiscal year 2006 Performance and Accountability Report.				
<b>Objective(s) Supported:</b>	4.1, 4.2				
<b>Program:</b>	Response - Emergency Preparedness and Response Directorate				

## STRATEGIC GOAL 4 - RESPONSE

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Develop and deploy a broad capability to prevent and rapidly mitigate the consequences of chemical attacks.

*As enhanced to better reflect near term program performance:* Provide dependable risk analyses, effective systems for surveillance, detection, and restoration, and reliable laboratory analytical analyses to protect the nation against attacks involving chemical agents.

<b>Performance Measure:</b>	Development of protocols for the highest priority toxic industrial chemicals (TICs) and toxic industrial materials (TIMs)				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	Protocols Developed	Development of a prototype mobile laboratory capable of on-site, high throughput analysis of TICs and CWAs was completed and the candidates characterized in field test. An initial evaluation of the risks, vulnerabilities, and consequences due to attacks using the TIC cyanide was initiated.	Met
<b>Description:</b>	Development of a range of analytical protocols and tools to enhance detection of and response to intentional attacks using TICs. The range of protocols extend from systems studies through detectors to laboratory response capabilities.				
<b>Explanation of FY 2005 Results:</b>	This measure will be discontinued and replaced by multiple measures in fiscal year 2006 to provide better definition of outcomes from program activities. In fiscal year 2005, systems studies that explore consequences of, and potential countermeasures against, attacks using TICs reached the interim report stage. Technologies were explored and a downselect conducted toward development of laboratory prototypes of broad spectrum detectors (addressing both TICs and chemical warfare agents) for responder and facility protection applications. An initial configuration of a deployable chemical detection network using commercially available detectors for TICs and chemical warfare agents was completed and tested for operational integrity.				
<b>Objective(s) Supported:</b>	1.3, 3.1, 4.1				
<b>Program:</b>	Chemical Countermeasures - Science and Technology Directorate				

## STRATEGIC GOAL 4 - RESPONSE

### Performance Goal:

*As stated in the fiscal year 2005 Annual Performance Plan:* Increase coordination of federal funding related to interoperability and compatibility efforts. Increase in communications interoperability between emergency response agencies at the local, state, and federal levels. Increase coordinated federal efforts in creating standardized testing and evaluation methodologies for emergency response technologies.

*As enhanced to better reflect near term program performance:* Ensure communications interoperability between emergency response agencies at the local, state, and federal levels and standardize federal testing and evaluation efforts for emergency response technologies.

<b>Performance Measure:</b>	Improve emergency response interoperability and compatibility to strengthen public safety preparedness and response.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	Develop criteria	Criteria not developed.	Not Met
<b>Description:</b>	The first step in developing interoperable technologies is to create criteria by which a particular technology must be compatible. Originally the Office for Interoperability and Compatibility projected the development of such criteria to be completed in fiscal year 2005, but later decided that a different measure would be more telling of performance.				
<b>Explanation of FY 2005 Results:</b>	In July/August 2004, S&T chose this measure because it was thought to be a good indicator of performance and would be measurable. It was discovered in fiscal year 2005 that it was not measurable with reasonable cost and a new measure will be used in the future. Note: Data reported against target does not meet all OMB standards of reliability. See section on Completeness and Reliability.				
<b>Recommended Action:</b>	Additional measures have been created to more accurately measure the program.				
<b>Objective(s) Supported:</b>	4.1				
<b>Program:</b>	Interoperability & Compatibility - Science and Technology Directorate				

## STRATEGIC GOAL 4 - RESPONSE

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan: Reduce the 5-year average number of oil spills >100 gallons and chemical discharge incidents and per 100 million tons shipped to 34 or less per year.*

*As enhanced to better reflect near term program performance: Eliminate oil spills and chemical discharge incidents.*

<b>Performance Measure:</b>	The five-year average number of U.S. Coast Guard investigated oil spills greater than 100 gallons and chemical discharges into the navigable waters of the United States per 100 million short tons of chemical and oil products shipped in U.S. waters.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	29.4	22.1	20 or less	18.5	Met
<b>Description:</b>	<p>This performance measure indicates the five-year average number of USCG investigated incidents involving the discharge of chemicals or oil (more than 100 gallons) 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; and fixed platforms and pipelines are excluded. Discharges from unspecified, unclassified, and unknown sources are also excluded.</p>				
<b>Explanation of FY 2005 Results:</b>	<p>In 2004, the USCG crafted a significantly more challenging goal for limiting the number of spills during 2005 and beyond. At the close of fiscal year 2005, it met this more aggressive goal by limiting the five year-average volume of spills to only 566,101 gallons, or 18.5 per million short tons shipped. This achievement represents a continuation of an overall downward trend in oil spills occurring since 1999. Key to attaining this performance was the USCG's efforts to incorporate the National Interagency Incident Command System (ICS) model into the United States' National Response Plan. This incorporation allowed the use of ICS to provide a unified framework to tie together the efforts of maritime industries, local, state, and Federal officials in responding to catastrophic environmental threats. Please note that these results will change as units complete their most recent investigations – a particular point for spills due to Hurricane Katrina.</p>				
<b>Objective(s) Supported:</b>	1.1, 1.4, 3.6, 4.1, 4.2, 5.2				
<b>Program:</b>	Marine Environmental Protection (MEP) - United States Coast Guard				

## STRATEGIC GOAL 4 - RESPONSE

### Performance Goal:

*As stated in the fiscal year 2005 Annual Performance Plan: Save 88 per cent of mariners in imminent danger.*

*As enhanced to better reflect near term program performance: Save mariners in imminent danger on our Nation's oceans and waterways.*

<b>Performance Measure:</b>	Percent of mariners in imminent danger saved.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	87.7%	86.8%	86% lives saved	86.1%	Met
<b>Description:</b>	This performance measure shows the percentage of mariner lives saved. The number of lives lost before and after the USCG is notified is factored into this percentage. 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. The number of lives saved is the best outcome measure for search and rescue because it includes lives lost both before and after the USCG is notified, thereby encouraging the USCG to invest in supporting systems, like Rescue 21 and safe boater programs, that increase the possibility that a search and rescue mission will end with lives saved.				
<b>Explanation of FY 2005 Results:</b>	The number of recreational and commercial maritime users continues to increase as more Americans move to coastal areas and as global trade continues to grow. In fiscal year 2005 SAR performance exceeded the current performance goal of rescuing at least 86% of mariners in imminent danger (FY 2005 results: 86.1 percent mariners rescued). This level reflects the same general level of results for three years under the present SAR reporting system (MISLE). It is expected that SAR performance will remain at this level until there is wider implementation of the Rescue-21 communications system and further upgrading of response assets such as the HH-65C and Response Boat Medium programs.				
<b>Objective(s) Supported:</b>	1.1, 1.4, 4.3				
<b>Program:</b>	Search and Rescue (SAR) - United States Coast Guard				

## Strategic Goal 5 - Recovery

**T**he 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.

**Objective 5.2** - Provide scalable and robust all-hazard recovery assistance.

Detailed information concerning actual performance during fiscal year 2005 to achieve this goal is provided below.

## STRATEGIC GOAL 5 - RECOVERY

### Performance Goal:

*As stated in the fiscal year 2005 Annual Performance Plan:* Increase the annual customer satisfaction level among recipients of Individual Disaster Recovery Assistance and Public Disaster Recovery Assistance; reduce the program delivery cost for Individual Recovery Assistance and Public Recovery Assistance; reduce Individual Recovery Assistance processing cycle time; complete catastrophic disaster recovery planning.

*As enhanced to better reflect near term program performance:* Ensure disaster recovery capability that restores services to individuals and rebuilds communities in non-catastrophic disasters with a high degree of customer satisfaction, while reducing cost and assistance cycle times and providing for recovery from catastrophic disasters.

<b>Performance Measure:</b>	Percent 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; and (E) reduction in Individual Recovery Assistance processing cycle time; (F) percentage completion of catastrophic disaster recovery plan.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	(A) 90.4% (B) 89.2% (C) Not Completed (D) N/A (E) N/A (F) 30%	(A) 90% (B) 87% (C) TBD (D) N/A (E) N/A (F) 45%	AS OF Q3:* (A) 93% (B) Data Not Available (C) TBD (D) N/A (E) N/A (F) 30%	Estimated - Met
<b>Description:</b>	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. The last part of this measure tracks successful completion of basic planning activities to provide for recovery operations following a catastrophic disaster.				
<b>Explanation of FY 2005 Results:</b>	* Because of the extraordinary commitment of time and personnel required in response to Hurricanes Katrina, Rita and Wilma, which struck at the end of fiscal year 2005, all performance figures for FEMA's Recovery Program are reported as of the end of the third quarter of fiscal year (June 30, 2005). At that time, FEMA's Recovery Program was on track in two of its four reportable performance elements. Of the two remaining elements, data was not available (customer satisfaction among recipients of Public Recovery Assistance) or was not on track to meet its annual target (catastrophic disaster recovery planning), but was expected to finish the year on target. Recovery's three non-reportable elements (those with targets labeled "TBD" or "N/A") will be reported beginning in fiscal year 2006. Final end-of-year results for fiscal year 2005 will be reported in the fiscal year 2006 Performance and Accountability Report.				
<b>Objective(s) Supported:</b>	5.1, 5.2				
<b>Program:</b>	Recovery - Emergency Preparedness and Response Directorate				

## Strategic Goal 6 - Service

**T**he 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.

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

**Objective 6.1** - Increase understanding of naturalization, and its privileges and responsibilities.

**Objective 6.2** - Provide efficient and responsive immigration services that respect the dignity and value of individuals.

**Objective 6.3** - Support the United States humanitarian commitment with flexible and sound immigration and refugee programs.

**Objective 6.4** - Facilitate the efficient movement of legitimate cargo and people.

Detailed information concerning actual performance during fiscal year 2005 to achieve this goal is provided below.

## STRATEGIC GOAL 6 - SERVICE

### Performance Goal:

*As stated in the fiscal year 2005 Annual Performance Plan:* To enhance the interdiction of terrorists and the instrument of terrorism by streamlining terrorist-related screening by comprehensive coordination of procedures that detect, identify, track, and interdict people, cargo and conveyances, and other entities and objects that pose a threat to homeland security, while safeguarding legal rights, including freedoms, civil liberties and information privacy guaranteed by Federal law.

*As enhanced to better reflect near term program performance:* Enable Federal Immigration and Border Management agencies to make timely and accurate risk and eligibility decisions through coordination of screening capability policies, business strategy and processes, data, information systems, and technology to further enhance security and immigration, travel, and credentialing experiences.

<b>Performance Measure:</b>	Percentage of foreign nationals entering the United States who have biometric and (and/or) biographic information on file prior to entry, including the foreign nationals that are referred to secondary inspection for further inspection actions and (and/or) with fraudulent documents identified.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	20.06%	50%	31.24%	Not Met
<b>Description:</b>	This measure captures the ratio of one-to-one matches for travelers processed through US-VISIT at ports of entry, against US-VISIT biometric records maintained on travelers previously enrolled in the US-VISIT program. These one-to-one biometric matches provide the highest level of certainty possible as to traveler identity using current technology in the field.				
<b>Explanation of FY 2005 Results:</b>	The current data indicate that about one-third of foreign nationals entering the United States have biometric data on file prior to entry. This amount is a lower percentage than the target. The fiscal year 2005 performance target was set while US-VISIT was in its initial roll-out phase, thus the program lacked historical data from which to establish sound targets. Data collection during the past year on this measure indicates that the target set proved to be overly ambitious. Further, the target was set for a travel environment which is lacking in detailed information about travel patterns, notably repeat travelers.				
<b>Recommended Action:</b>	Upon evaluating the usefulness of the information provided by this measure, it is evident that the current measure does not adequately capture meaningful information for the program. The Performance Measurement Working Group for US-VISIT has proposed new outcome measures for the program that will better gauge program impact. These measures will be implemented and reported on in fiscal year 2006.				
<b>Objective(s) Supported:</b>	6.4				
<b>Program:</b>	Screening Coordination and Operations – Office of the Under Secretary for Border and Transportation Security				

## STRATEGIC GOAL 6 - SERVICE

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Eliminate the application backlog and achieve a six-month cycle time by FY2006.

*As enhanced to better reflect near term program performance:* To support the processing of immigration and citizenship benefits.

<b>Performance Measure:</b>	Percentage of applications more than 6 months old (backlog as a percentage of pending)				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	43%	48%	Not Met
<b>Description:</b>	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. Immigrant visa petitions for which no visa numbers are currently available (no immediate benefit would be available with a positive adjudicatory decision) and adjustment of status applications held in abeyance due to statutory numerical limitations, are not considered backlog. Those cases, while taken in receipt order and considered active, pending cases, are not included in the USCIS backlog definition. USCIS collects performance data on applications received, completed and pending through its Performance Analysis System (PAS). Backlog is reported as a percentage of total pending cases. Backlog is the number of pending cases which is greater than the total of the last six months of receipts.				
<b>Explanation of FY 2005 Results:</b>	The Real ID Act lifted the 10,000 adjustment-per-year cap resulting in the addition of about 170,000 pending asylum adjustment cases to the backlog figure – without which the backlog amount would be 43.3 percent.				
<b>Recommended Action:</b>	USCIS is working to identify workloads and resources that can be shifted to offices with production capacity to ensure that only backlog cases are being worked.				
<b>Objective(s) Supported:</b>	6.2, 6.3				
<b>Program:</b>	Backlog Initiative - United States Citizenship and Immigration Services				

## STRATEGIC GOAL 6 - SERVICE

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Adjudicate asylum and refugee applications in a timely, accurate, consistent, and professional manner; and prevent ineligible individuals from receiving humanitarian benefits.

*As enhanced to better reflect near term program performance:* Adjudicate asylum and refugee applications in a timely, accurate, consistent, and professional manner.

<b>Performance Measure:</b>	Adjudicate refugee applications (I-590) referred by the United States Refugee Program during a given fiscal year in a timely, accurate, consistent and professional manner.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	up to 90,000	58,937	Met
<b>Description:</b>	Each year the President consults with Congress and establishes the annual ceiling for refugee admissions through issuance of a Presidential Determination (PD). The latest PD established an admissions ceiling of 70,000 for fiscal year 2005. As one of several partners in the Program, USCIS adjudicates the I-590 applications presented by its program partners (i.e. United Nations High Commissioner for Refugees and Department of State). Presently, USCIS estimates that approximately 90,000 applications must be presented by its partners in order to meet the admission ceiling of 70,000. USCIS is committed to adjudicating all refugee cases presented, and would not limit its efforts to 90,000 cases if a greater need arose. Once applications are presented, USCIS must process the applications in a timely, accurate, consistent, and professional manner to fulfill the humanitarian mission of the U.S. refugee program while simultaneously safeguarding national security.				
<b>Explanation of FY 2005 Results:</b>	USCIS met its target of not exceeding the 70,000 ceiling set by PD. The 58,937 actual results for fiscal year 2005 were accomplished with the assistance of approximately 137 officers on temporary duty assignments from other programs, most notably from the Asylum Division. USCIS generally adjudicates all of the cases referred to it by the Department of State in a given fiscal year. Performance reported was obtained through the Worldwide Refugee Admissions Processing System (WRAPS), a refugee program database that is maintained by the Department of State.				
<b>Objective(s) Supported:</b>	6.2, 6.3				
<b>Program:</b>	Asylum and Refugee Services - United States Citizenship and Immigration Services				

## STRATEGIC GOAL 6 - SERVICE

<b>Performance Measure:</b>	Complete 75% of asylum reform referrals (at local offices) within 60 days of receipt.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	83%	71%	75%	79%	Met
<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.				
<b>Explanation of FY 2005 Results:</b>	After falling short on desired performance levels in fiscal year 2004, the headquarters Asylum Division worked closely with the four Asylum Offices that had underperformed in 2004 to design corrective solutions and improve processing rates. Site visits to those offices in the third quarter of fiscal year 2004 revealed that 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, it was confirmed that an influx of Colombian cases over the last several years had exceeded the productive capacity of that office, which in turn caused processing delays. In fiscal year 2005 the headquarters Asylum Division and all Asylum Offices fine-tuned certain processes within each office to help management better track and monitor processing deadlines. In the Miami Asylum Office, increased staffing, as well as the newly implemented process enhancements, contributed to the increase in processing rates.				
<b>Objective(s) Supported:</b>	6.2, 6.3				
<b>Program:</b>	Asylum and Refugee Services - United States Citizenship and Immigration Services				

## STRATEGIC GOAL 6 - SERVICE

### Performance Goal:

*As stated in the fiscal year 2005 Annual Performance Plan:* Provide legal permanent residency information and benefits in a timely, accurate, consistent, courteous, and professional manner; and prevent ineligible individuals from receiving immigration benefits.

*As enhanced to better reflect near term program performance:* Provide legal permanent residency information and benefits in a timely, accurate, consistent, courteous, and professional manner.

<b>Performance Measure:</b>	Achieve and maintain a cycle time goal of 6 months or less for all immigrant services applications by FY 2006.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	15 months (I-485)	13.9 months	Met
<b>Description:</b>	Cycle Time is a measure of the time it takes to provide a decision on an application. The I-485, Application to Adjust Status, is the form used to adjust to permanent legal status, and is one of our highest volume application types. On a monthly basis, USCIS collects performance data on applications received, completed and pending through its Performance Analysis System. Actual Cycle Time is calculated by counting back the number of preceding months until the sum of the monthly receipts equals the current month's End Pending. Prior to fiscal year 2005, USCIS measured timeliness in terms of Average Cycle Time, which was calculated by dividing the number of cases pending by average monthly receipts over the last 12 months. Usually, the Average Cycle Time and Actual Cycle Time give the same results. However, Actual Cycle Time calculation will allow more accurate and timely distribution of resources in local offices as backlogs fall and workloads among form types shift.				
<b>Explanation of FY 2005 Results:</b>	Since implementing the update to the Backlog Elimination Plan in 2004, USCIS has been measuring the production of key forms in terms of numerical completions, efficiency in terms of completion rates (adjudicative hours per completion), and cycle time. These measures allow USCIS to determine the effort required to meet our goals, to ascertain staffing resource requirements and to identify opportunities for process improvement. Backlog elimination initiatives which USCIS has implemented include: piloting new processes to find more efficient methods of operation; updating policies and procedures to eliminate duplicative efforts; initiating systems sweeps to replace inefficient manual queries; reallocating staff to align resources with workload, and redistributing workloads to offices with excess capacity.				
<b>Objective(s) Supported:</b>	6.2, 6.3				
<b>Program:</b>	Immigrant Services - United States Citizenship and Immigration Services				

## STRATEGIC GOAL 6 - SERVICE

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* 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.

*As enhanced to better reflect near term program performance:* Provide citizenship and naturalization benefits in a timely, accurate, consistent, courteous, and professional manner.

<b>Performance Measure:</b>	Achieve and maintain a 6-month cycle time goal for all naturalization applications by FY 2006.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	N/A	10 months (N-400)	10.9 months	Not Met
<b>Description:</b>	Cycle Time is a measure of the time it takes to provide a decision on an application. The N-400, Application for Naturalization, is the form used to apply for naturalization, and is one of our highest volume application types. On a monthly basis, USCIS collects performance data on applications received, completed and pending through its Performance Analysis System. Actual Cycle Time is calculated by counting back the number of preceding months until the sum of the monthly receipts equals the current month's End Pending. Prior to fiscal year 2005, USCIS measured timeliness in terms of Average Cycle Time, which was calculated by dividing the number of cases pending by average monthly receipts over the last 12 months. Most of the time the Average Cycle Time and Actual Cycle Time give the same results. However, Actual Cycle Time calculation will allow more accurate and timely distribution of resources in local offices as backlogs fall and workloads among form types shift.				
<b>Explanation of FY 2005 Results:</b>	The target was not met in part due to weather-related (Hurricane Katrina) cancellation of naturalization ceremonies in Miami and New Orleans in August, as well as the loss of detailees to FEMA Hurricane Katrina relief.				
<b>Recommended Action:</b>	USCIS is working toward being able to identify those cases that are complete but awaiting oath ceremony, which in many venues is under the jurisdiction and therefore subject to scheduling by the US District Court.				
<b>Objective(s) Supported:</b>	6.2, 6.3				
<b>Program:</b>	Naturalization Services - United States Citizenship and Immigration Services				

## STRATEGIC GOAL 6 - SERVICE

### Performance Goal:

*As stated in the fiscal year 2005 Annual Performance Plan:* Provide temporary residency information and benefits in a timely, accurate, consistent, courteous, and professional manner; and prevent ineligible individuals from receiving nonimmigrant benefits.

*As enhanced to better reflect near term program performance:* Provide temporary residency information and benefits in a timely, accurate, consistent, courteous, and professional manner.

<b>Performance Measure:</b>	Achieve and maintain a cycle time goal of 6 months or less for all Nonimmigrant services applications by fiscal year 2006.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	2 months (I-129)	1.5 months	Met
<b>Description:</b>	Cycle Time is a measure of the time it takes to provide a decision on an application. The I-129, Petition for Nonimmigrant Worker, is the form employers use to petition for an alien to come to the United States temporarily as a nonimmigrant worker, and is one of our highest volume application types. Monthly, USCIS collects performance data on applications received, completed and pending through its Performance Analysis System. Actual Cycle Time is calculated by counting back the number of preceding months until the sum of the monthly receipts equals the current month's End Pending. Prior to fiscal year 2005, USCIS measured timeliness in terms of Average Cycle Time, which was calculated by dividing the number of cases pending by average monthly receipts over the last 12 months. Usually, Average Cycle Time and Actual Cycle Time give the same results. However, Actual Cycle Time calculation allows more accurate resource distribution in local offices as backlogs fall and workloads among form types shift.				
<b>Explanation of FY 2005 Results:</b>	Since implementing the update to the Backlog Elimination Plan in 2004, USCIS has been measuring the production of key forms in terms of numerical completions, efficiency in terms of completion rates (adjudicative hours per completion), and cycle time. These measures allow USCIS to determine the effort required to meet our goals, to ascertain staffing resource requirements and to identify opportunities for process improvement. Backlog elimination initiatives which USCIS has implemented include: Piloting new processes to find more efficient methods of operation; Updating policies and procedures to eliminate duplicative efforts; Initiating systems sweeps to replace inefficient manual queries; reallocating staff to align resources with workload, and redistributing workloads to offices with excess capacity.				
<b>Objective(s) Supported:</b>	6.2, 6.3				
<b>Program:</b>	Nonimmigrant Services - United States Citizenship and Immigration Services				

## STRATEGIC GOAL 6 - SERVICE

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Reduce the five-year average of the number of collisions, allisions and groundings (CAG) to 1,500.

*As enhanced to better reflect near term program performance:* Eliminate collisions, allisions and groundings by vessels on our Nation's oceans and waterways.

<b>Performance Measure:</b>	Five-Year Average of Number of Collisions, Allisions, and Groundings (CAG)				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	1,523	1,876	1,831 or fewer	1825	Met
<b>Description:</b>	This measure evaluates how well the Aids to Navigation (AtoN) system prevents collisions, allisions (vessel striking a fixed object), and groundings (CAG) by comparing results from the current period to those of previous periods. This measure is a five-year average of distinct CAG events; figured by summing the number of events for the entire five-year period and dividing by five. Data are collected from USCG Marine Information for Safety and Law Enforcement System. CAG is a valid measure of progress in the AtoN community because the numbers are not subjective and are easily comparable from period to period. The five-year averaging provides some smoothing to dampen the effect of a significantly "good" or "bad" year.				
<b>Explanation of FY 2005 Results:</b>	Ongoing Vessel Traffic Service, waterways management improvements and continuous maintenance of existing visual and radio aids to navigation system have contributed to a steady decline in collisions, allisions and groundings.				
<b>Objective(s) Supported:</b>	1.1, 1.4, 6.4				
<b>Program:</b>	Aids to Navigation (AtoN) - United States Coast Guard				

## STRATEGIC GOAL 6 - SERVICE

**Performance Goal:**

Maintain operational channels for navigation, limiting channel closures to two days (during average winters) and eight days (during severe winters).

<b>Performance Measure:</b>	Limit the number of days critical waterways are closed due to ice to 2 days in an average winter and 8 days in a severe winter.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	7 (severe)	4 closure days, average winter	2(avg), 8 (severe)	0 Closures	Met
<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. The measure is for the Great Lakes only – most USCG icebreaking is done on the Great Lakes, with some in USCG District 1 (Northeast United States) and an even smaller amount in USCG District 5 (mid-Atlantic). The measure is the annual total number of days that critical waterways are forced to close during the winter. Targets for this measure depend on the severity of the winter: no more than 2 closures during average winters, and no more than 8 during severe winters. Winter severity is determined by a ratio developed by the National Weather Service, National Oceanographic and Atmospheric Administration (NOAA), and the Department of Commerce.				
<b>Explanation of FY 2005 Results:</b>	In terms of winter severity, 2005 was an average winter for freezing degree days. The Ninth District Ice Breaking Fleet exceeded its target of fewer than two critical waterway closure days for the 2005 winter through a combination of international cooperation and sound vessel management. Ninth District icebreakers kept critical waterways open for navigation (with zero closure days) through the hard work and dedication of its icebreaker sailors. Also critical in accomplishing this goal was the USCG continued collaboration with the Canadian Coast Guard. The USCG and Canadian Coast Guard support a joint operations center during the winter months on the Great Lakes to manage ice operations traffic and focus limited icebreaking resources on priority tasks. Historical results: 2000: 0 closures, average winter; 2001: 7 closures, severe winter; 2002: 0 closures, average winter; 2003: 7 closures, severe winter; 2004: 4 closures, average winter (goal not met).				
<b>Objective(s) Supported:</b>	1.1, 1.4, 6.4				
<b>Program:</b>	Ice Operations - United States Coast Guard				

## 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** - Value our people.

**Objective 7.2** - Drive toward a single Departmental culture.

**Objective 7.3** - Continually improve our way of doing business.

Detailed information concerning actual performance during fiscal year 2005 to achieve this goal is provided below.

### STRATEGIC GOAL 7 - ORGANIZATIONAL EXCELLENCE

**Performance Goal:**

*As stated in the fiscal year 2005 Annual Performance Plan:* Add value to the DHS programs and operations; ensure integrity of the DHS programs and operations; and enable the OIG to deliver quality products and services.

*As enhanced to better reflect near term program performance:* Ensure the integrity of DHS operations by conducting independent assessments of programs' efficiency and effectiveness.

<b>Performance Measure:</b>	Percentage of recommendations made by OIG that are accepted by the Department of Homeland Security-- The Department is obliged to respond to all OIG recommendations that are included in draft audit or inspection/ evaluation reports. When a recommendation is accepted, the Department agrees to take the necessary action to resolve the issue.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	92%	75%	93%	Met
<b>Description:</b>	The Inspectors General Act requires the Office of Inspector General (OIG) to audit programs for fraud, waste, and abuse. The Act also requires the review of programs for activities designed to promote economy, efficiency, and effectiveness. The criteria used to select programs for audit include: statutory and regulatory requirements; adequacy of internal control systems; newness; changed conditions; potential dollar magnitude; etc. Where appropriate, OIG audit and inspection reports include recommendations which, if accepted and implemented, will improve the respective program. The OIG tracks the recommendations that are issued until they have been implemented.				
<b>Explanation of FY 2005 Results:</b>	During fiscal year 2005, 93 percent of all OIG recommendations were accepted, a much higher percentage than the target. This provides evidence that the Department is actively working to improve its programs and operations.				
<b>Objective(s) Supported:</b>	7.3				
<b>Program:</b>	Audit, Inspections, and Investigations Program - Inspector General				

## STRATEGIC GOAL 7 - ORGANIZATIONAL EXCELLENCE

### Performance Goal:

*As stated in the fiscal year 2005 Annual Performance Plan:* 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.

*As enhanced to better reflect near term program performance:* Ensure that 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>Performance Measure:</b>	Percent of qualifying reimbursements that are made with established standards of timeliness and proper authorization.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/Actual Indicator:</b>	N/A	100%	100%	N/A	Met
<b>Description:</b>	The Counterterrorism Fund provides a means to cover unbudgeted and unanticipated critical costs associated with providing support to counter, investigate, and prosecute domestic or international terrorism, and to reestablish the operational capability of property damaged or destroyed as a result of any domestic or international terrorist incident. This measure represents the percent of funds that were reimbursed to the Department's components for unforeseen expenses that arose from the prevention of or response to terrorist attacks, including costs associated providing support to counter, investigate, and pursue terrorism. In addition, the Fund may be used to reimburse other Federal agencies for costs related to their participation over and above normal operations, in particular terrorism prevention or response activities. If no payments are called for the actual will be "N/A".				
<b>Explanation of FY 2005 Results:</b>	Although there were no requests for reimbursements, the Department met all the conditions, with procedures and personnel in place for meeting established standards of timeliness and proper authorization.				
<b>Objective(s) Supported:</b>	7.3				
<b>Program:</b>	Counterterrorism Fund - Management Directorate				

## STRATEGIC GOAL 7 - ORGANIZATIONAL EXCELLENCE

**Performance Goal:**

The Department of Homeland Security components and stakeholders have world class information technology leadership and guidance enabling them to efficiently and effectively achieve their vision, mission and goals.

<b>Performance Measure:</b>	The percentage of major IT projects that are within 10% of cost/schedule/performance objectives.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	52%	70%	81%	Met
<b>Description:</b>	This measure gauges the percent of major information technology (IT) investments that are on schedule, on cost, and delivering their planned performance. These indicators are the industry accepted critical factors for assessing project management effectiveness, and ultimately the success of IT investments. The major investments included in this measure are all those whose contract costs exceed \$100 million and have a high sensitivity or interest, and are referred to as Level 1 investments.				
<b>Explanation of FY 2005 Results:</b>	This information helps the Chief Information Officer track and identify problem areas that merit management attention. During fiscal year 2005, 81% of major IT projects were within 10% of cost / schedule / performance objectives. This is evidence that the majority of major IT investments are on schedule, within cost and delivering their planned performance. This data was collected from the Exhibit 300s, which were prepared by Project Managers and certified by the Chief Financial Officer of the Component submitting the exhibits. This information is sent to OMB for inclusion in the President's budget each year.				
<b>Objective(s) Supported:</b>	1.1, 7.3				
<b>Program:</b>	Office of the Chief Information Officer - Management Directorate				

## STRATEGIC GOAL 7 - ORGANIZATIONAL EXCELLENCE

### Performance Goal:

*As stated in the fiscal year 2005 Annual Performance Plan: Provide comprehensive leadership, management, oversight, and support to improve the efficiency and effectiveness of the Department.*

*As enhanced to better reflect near term program performance: Maximize management efficiencies and ensure continuity of services by consolidating DHS support services.*

<b>Performance Measure:</b>	Percent of DHS strategic objectives with programs that meet their associated performance targets.				
<b>Fiscal Year:</b>	<b>FY 2003 Actual</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Target</b>	<b>FY 2005 Actual</b>	<b>FY 2005 Results</b>
<b>Target/ Actual Indicator:</b>	N/A	N/A	44%	84.9%	Met
<b>Description:</b>	The Department gauges its success in meeting its mission through implementation of the Department of Homeland Security Strategic Plan. The plan includes strategic goals and objectives as well as strategies and programs that describe what the Department does and what the Department will accomplish. Each program is linked to the Department's strategic goals and objectives and has specific performance measures. The Department demonstrates the value and outcomes of its services through the results of program performance metrics. The performance outcomes of programs tell how the Department is impacting citizens, stakeholders, and customers and meeting its mission.				
<b>Explanation of FY 2005 Results:</b>	During fiscal year 2005, 84.9 percent of the Department's strategic objectives have programs that met their associated performance targets. This is evidence that the Department is realizing its strategic goals and objectives and making progress towards meeting its mission.				
<b>Objective(s) Supported:</b>	7.3				
<b>Program:</b>	Office of the Secretary and Executive Management - Management Directorate				

## Fiscal Year 2004 Estimated Actuals

Some programs reported estimated actuals in the fiscal year 2004 Performance and Accountability Report. The Department committed to update these actuals in this year's Report, and did so in the applicable tables in this section. Some programs and/or measures that appeared in the 2004 Report were not reported on in this year's Report. To account for these programs and/or measures, we have created the following list arranged by strategic goal under which the program was reported in the FY 2004 Performance and Accountability Report Completeness and Reliability Section.

### GOAL 2 – PREVENTION:

**Program: Border Security Inspections and Trade Facilitation at Ports of Entry (BSITF) (CBP)**

- Measure: Counter Terrorism Qualitative Assessment
- FY04 Estimate = Results not available – in conjunction with the Department, CBP will work to develop and implement a methodology to conduct qualitative assessment.
- FY04 Actual = During FY 2005, an OMB PART assessment was begun on the program. As a result of the PART assessment, CBP replaced the qualitative assessment with measures that successfully assess CBP's many counter-terrorism efforts.
- CBP developed useful long-term performance and efficiency measures for this program and a plan for regular evaluations has been undertaken. New measures and goals were presented in the PART during fiscal year 2005 which illustrate the broad range of counter-terrorism programs and activities under BSITF.

### GOAL 3 – PROTECTION:

**Program: Remediation and Protective Actions Program and Outreach Partnership (IAIP)**

- Measure: Recommended protective actions implemented for 65% of first-tier priority critical infrastructure components or key assets.
- FY04 Estimate = 30%.
- FY04 Actual = As the FY 2004 Performance and Accountability Report was being finalized, it was concluded that it would be more effective to split this program into two; Protective Actions, and Critical Infrastructure Outreach & Partnerships. Accordingly, rather than devote resources to determining a more accurate FY04 results, it was deemed more efficient to spend them in developing the new measures contained in the FY05 Annual Performance Plan. The two measures reported in this year's report are: Percentage of completed Technology Application Pilot projects having a successful proof of concept and determined to be suitable for further implementation (Protective Actions), and Percent of targeted critical sector infrastructure owner/operators, that are Homeland Security Information Network (HSIN) users (Critical Infrastructure Outreach & Partnerships).

**Program: National Exercise (SLGCP)**

- 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 (see note)
- FY04 Estimate = 20%
- FY04 Actual = 7%

**Program: State Formula Grant (SLGCP)**

- 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.
- FY04 Estimate = 20%
- FY04 Actual = 0%, none attained the 90% standard (see note)

**Program: State and Local Training (SLGCP)**

- 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.
- FY04 Estimate = 20%
- FY04 Actual = 0%, none attained the 90% standard (see note)

**Program: Urban Areas Security Initiative (SLGCP)**

- Measure: Percentage of the participating urban areas that demonstrated performance within at least 90 percent of critical tasks within the expected range.
- FY04 Estimate = 20%
- FY04 Actual = 0%, none attained the 90% standard (see note)

**Program: Evaluation (SLGCP)**

- 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.
- FY04 Estimate = 177 (number of estimated exercises performed by jurisdictions in Fiscal year 2004. Percent was not estimated, so reported number of exercises)
- FY04 Actual = 0%, none attained the 90% standard (see note)

**Note on SLGCP measures:**

- Explanation: The program did not meet its fiscal year 2004 targets for jurisdictions demonstrating acceptable performance on critical tasks. Fiscal year 2004 was the first implementation year of the Homeland Security Exercise and Evaluation Program (HSEEP) doctrine, against which state and local jurisdictions assess their exercise performance. This resulted in low performance ratings as jurisdictions calibrated their exercise activities to meet HSEEP guidelines. In addition, fiscal year 2004 was the first year for these measures. As a result, fiscal year 2004 targets were

developed without definitive baseline data. Based on an analysis of the data from fiscal year 2004, the program recognized that its initial targets were set unreasonably high.

- Recommended Action: For fiscal year 2005, the program developed a new set of outcome-oriented performance measures with more reasonable, but still aggressive, targets. As a result, the program ceased using these measures after fiscal year 2004.

## Program Performance Measure Goal Realignments

### PROGRAM PERFORMANCE MEASURE GOAL REALIGNMENTS

#### From the FY 2005 Performance Budget Overview (PBO) to the Performance Report (PAR)

The DHS strategic goal under which the following performance measures are reported were changed during FY 2005 to better reflect actual operations.

Program Performance Measure	FY06 PBO Strategic Goal	FY05 PAR Strategic Goal
Improved capabilities to detect threats in urban areas (Urban Monitoring Program)	Awareness	Protection
Percent of critical infrastructure prioritized for threat vulnerability.	Awareness	Prevention
Percent of qualifying reimbursements that are made within established standards of timeliness and proper authorization.	Awareness	Organizational Excellence
The percentage of major IT projects that are within 10% of cost/schedule/performance objectives.	Awareness	Organizational Excellence
Average Ports, Waterways, and Coastal Security Risk-Based Index.	Prevention	Protection
Improve Emergency Response interoperability and compatibility to strengthen public safety preparedness and response.	Prevention	Response
Percentage of foreign nationals entering the U.S. who have biometric and (or and/or) biographic information on file prior to entry including the foreign nationals that are referred to a secondary inspection for further inspection actions and (or and/or) with fraudulent documents identified.	Prevention	Service
Percentage of students that express excellent or outstanding on the student quality of training survey (SQTS)	Protection	Prevention
Percent of responding recipients indicating the annual emerging threat assessment report is valuable.	Organizational Excellence	Awareness
Number of scholars and fellows supported and number of University Centers of Excellence.	Organizational Excellence	Protection
Percent of technologies prototyped or commercialized	Organizational Excellence	Prevention
1) Establish technical standards and test/evaluation protocols for WMD decontamination technologies and analysis tools. 2) Establish and accredit a network of private/public labs to perform testing, evaluation, and certification of WMD emergency response technologies to allow effective procurement and deployment of technologies that will substantially reduce risk and enhance resiliency of the federal, state, and local response capability.	Organizational Excellence	Prevention
Number of effective technology/technologies for commercial aircraft to defeat man-portable anti-aircraft missiles identified. Technologies identified, and prototypes developed and tested.	Organizational Excellence	Protection

## 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 2005, the Office of the Inspector General (OIG) and the Government Accountability Office (GAO) performed numerous evaluations of the Department's programs. The Office of Management and Budget (OMB) also conducts evaluations each year to help improve programs.

### OFFICE OF MANAGEMENT AND BUDGET EVALUATIONS

During fiscal year 2005, OMB finalized program evaluations used to inform the fiscal year 2006 President's Budget. These evaluations, Program Assessment Rating Tool (PART) ratings, classified programs as being Effective, Moderately Effective, Adequate, Ineffective, or Results Not Demonstrated. A rating of Results Not Demonstrated means that a program does not have sufficient performance measurement or performance information to show results, and therefore it is not possible to assess whether it has achieved its goals. Those ratings, the program and evaluation names, summary findings, and actions taken in FY 2005 to address recommendations are shown below. Another round of evaluations were started in FY 2005, and will be completed by OMB after publication of the FY 2005 Performance and Accountability Report.

#### OFFICE OF MANAGEMENT and BUDGET EVALUATIONS

Program Name	DHS Entity	Name of Evaluation	By	Date	Rating on Program Findings
Border Security Inspections and Trade Facilitation at Ports of Entry	CBP	Inspection Technology	OMB	2005	Results Not Demonstrated
<b>Summary findings:</b>	The assessment found that the Inspection Technology program is unable to demonstrate results due to a lack of comprehensive, outcome-based performance measures or ambitious targets for performance goals. The majority of the performance measures for the Inspection Technology program are either "under development" or "new." There are no targets, goals, or actual data from previous years to use to measure future performance.				
<b>Actions to address recommendations:</b>	In response to these findings, Customs and Border Protection has developed useful long-term performance and efficiency measures for this program and a plan for regular evaluations has been undertaken. New measures were developed during FY 2005 and reviewed by the Office of Management and Budget.				

## OFFICE OF MANAGEMENT and BUDGET EVALUATIONS

Program Name	DHS Entity	Name of Evaluation	By	Date	Rating on Program Findings
Response	EP&R	FEMA Response	OMB	2005	Adequate
<b>Summary findings:</b>	The assessment of the Department of Homeland Security's Response program found that the program has a clear purpose. It is designed to address an existing need, which is the challenge of implementing various response plans involving many different teams, and the associated need for closer coordination of assets, resources and logistics capabilities to save lives and property in the event of a disaster, whether natural or manmade. The Response program was newly reorganized in fiscal year 2004 due to the establishment of the Department of Homeland Security. While there is no long term information available on performance, the program seems to be achieving its quarterly goals.				
<b>Actions to address recommendations:</b>	The Response Program worked to validate baseline performance established in fiscal year 2004 and demonstrate improvement on all Program performance measures. EP&R developed baseline information to be used to inform performance.				

Program Name	DHS Entity	Name of Evaluation	By	Date	Rating on Program Findings
Recovery	EP&R	Recovery	OMB	2005	Adequate
<b>Summary findings:</b>	The assessment of the Department of Homeland Security's Recovery program found that the program has a clear purpose and addresses an existing need. FEMA's recovery programs are carefully designed to avoid duplicative disaster assistance through sequencing the delivery of FEMA assistance with the assistance available from other sources, such as insurance or other federal agency programs. The assessment of the Department of Homeland Security's Recovery program found that the program has a clear purpose and addresses an existing need.				
<b>Actions to address recommendations:</b>	The Recovery Program worked to determine a unit cost baseline for the Individual Assistance Program to track future reductions in the Program's delivery costs.				

## OFFICE OF MANAGEMENT and BUDGET EVALUATIONS

Program Name	DHS Entity	Name of Evaluation	By	Date	Rating on Program Findings
Office of Investigations	ICE	Office of Investigations	OMB	2005	Adequate
<b>Summary findings:</b>	The assessment found that the Office of Investigations has made significant progress in the integration of former customs and immigration service investigators, and has started to reap the benefits of additional investigative authorities.				
<b>Actions to address recommendations:</b>	In response to recommendations, the following actions were undertaken: 1) Increased funding was requested in the fiscal year 2006 budget for the Visa Security Program, Homeland Security Data Network, and worksite enforcement. 2) Steps were taken to provide stronger financial control of resources and stronger internal control mechanisms to track expenditure of funds. 3) Institution of controls to hold managers accountable for performance results were implemented. 4) Efforts to more closely cooperate with other Federal law enforcement agencies in order to prevent conflicting investigations and to utilize all resources in common investigative goals were taken. 5) Collection of critical performance data for the program's measures was undertaken.				

OFFICE OF MANAGEMENT and BUDGET EVALUATIONS

Program Name	DHS Entity	Name of Evaluation	By	Date	Rating on Program Findings
State Formula Grants	SLGCP	State Formula Grants	OMB	2005	Results Not Demonstrated
<b>Summary findings:</b>	<p>State Formula Grants Program addresses the critical need of federal assistance to states and localities to prepare the nation to prepare, prevent, and respond to acts of terrorism. Findings of the evaluations are: 1) Funding is allocated by a formula that uses population as the sole risk factor, ignoring other threats and vulnerabilities. 2) The program's planning process is driven by the States and is somewhat disorganized. 3) Despite years of work, the program still lacks clear goals and measures. An effort to develop goals and measures under Homeland Security Presidential Directive 8, (HSPD-8) is proceeding fitfully. 4) While grant obligations have been timely, the actual expenditure and disbursement of funds has been slow. 5) Current reporting mechanisms focus on what has been planned and purchased with grant funds, not outcomes or accomplishments.</p>				
<b>Actions to address recommendations:</b>	<p>In response to these recommendations from OMB, SLGCP's fiscal year 2006 Budget proposed to further restructure the grant allocation process, providing the Secretary with greater discretion to award funds based on risks, threats, and vulnerabilities. SLGCP will explain the grant allocation to States through issuance of the fiscal year 2006 State Homeland Security Grant Guidance, due December 2005. Additionally, SLGCP issued the Interim National Preparedness Goal and accompanying Target Capabilities List (TCL-version 1.1) in March and May of 2005 respectively and is awaiting final approval by the President. The Goal includes the National Priorities to guide the nation's efforts to achieve and sustain nationally accepted-risk based target levels of capability found in the TCL. The fiscal year 2006 State Homeland Security Grant Guidance has been aligned to the Goal and TCL. SLGCP will submit an Annual Status Report of the nation's level of preparedness one year from the date of approval of the National Preparedness Goal.</p>				

## OFFICE OF MANAGEMENT and BUDGET EVALUATIONS

Program Name	DHS Entity	Name of Evaluation	By	Date	Rating on Program Findings
Biological Countermeasures	S&T	Biological Countermeasures	OMB	2005	Effective
<b>Summary findings:</b>	<p>This program ranked the highest of the three that were evaluated by the PART for Science and Technology Directorate. The Directorate was created as a new part of the Department of Homeland Security and has only now begun establishing performance measures and evaluating their progress toward reaching those goals. As such, at the conclusion of the one-year performance cycle, the Directorate can evaluate its progress toward those goals. Program funding is tracked regularly to ensure timely and accurate execution; however, during the initial execution of new programs and development of financial processes, there were delays in fiscal year 2004 and fiscal year 2005 budget execution. Task oriented execution plans are being aggressively carried out. While strategic planning and evaluation is currently underway, subsequent deficiencies have not been identified or remedied.</p>				
<b>Actions to address recommendations:</b>	<p>In response to these findings, and in consideration of the high achievements, the submitted Budget for fiscal year 2006 included an increase for this Program. The program also began further program evaluations and analysis processes which will evaluate the progress that each Portfolio makes toward achieving their respective goals and remedying any deficiencies.</p>				

OFFICE OF MANAGEMENT and BUDGET EVALUATIONS

Program Name	DHS Entity	Name of Evaluation	By	Date	Rating on Program Findings
Threat and Vulnerability, Testing & Assessments	S&T	Threat and Vulnerability, Testing and Assessment (TVTA)	OMB	2005	Results Not Demonstrated
<b>Summary findings:</b>	<p>The Directorate was created as a new part of the Department of Homeland Security and has only now begun establishing performance measures and evaluating their progress toward reaching its goals. As such, at the conclusion of the one-year performance cycle, the Science and Technology Directorate can evaluate its progress toward those goals. Performance measures can demonstrate TVTA's progress in meeting its strategic objectives and some have been developed as part of TVTA's Strategic Planning efforts, but some fiscal and accountability controls were lacking. Strategic planning and evaluation is currently underway and subsequent deficiencies have not been identified or remedied. The program's score suffered in part from things outside its control such as the fact that outside evaluators have not had a chance to conduct plenary analysis and because legal impediments have hindered their success.</p>				
<b>Actions to address recommendations:</b>	<p>In response to these findings, the fiscal year 2006 budget included a decrease for TVTA. The Science and Technology Directorate initiated a further program evaluations and analysis processes. That process will evaluate the progress that each Portfolio makes toward achieving their respective goals and remedying any deficiencies.</p>				

## OFFICE OF MANAGEMENT and BUDGET EVALUATIONS

Program Name	DHS Entity	Name of Evaluation	By	Date	Rating on Program Findings
<b>Standards</b>	<b>S&amp;T</b>	<b>Standards</b>	<b>OMB</b>	<b>2005</b>	<b>Adequate</b>
<b>Summary findings:</b>	<p>The Science and Technology Directorate was created as a new part of the Department of Homeland Security and has only begun establishing performance measures and evaluating their progress toward reaching its goals. As such, at the conclusion of the one-year performance cycle the Directorate can evaluate its progress toward those goals. Annual Performance Goals for the program are defined in its strategic planning templates and in the Future Years Homeland Security Program performance measures. They include establishing the Department standards prioritization, adoption and development process, and adopting and developing key standards in 11 subject areas including weapons of mass destruction countermeasures and operational directorates' needs. While strategic planning and evaluation is currently underway, subsequent deficiencies have not been identified or remedied. Independent evaluations of the standards program have not been accomplished to date, although the Homeland Security Standards Advisory Council will report on the fiscal year 2004 program.</p>				
<b>Actions to address recommendations:</b>	<p>The program manager began development of a program evaluation and analysis process that evaluates the progress that each Portfolio makes toward achieving their respective goals and remedying any deficiencies. Results from these evaluations are expected during fiscal year 2006.</p>				

OFFICE OF MANAGEMENT and BUDGET EVALUATIONS

Program Name	DHS Entity	Name of Evaluation	By	Date	Rating on Program Findings
Screeener Workforce	TSA	Screeener Workforce	OMB	2005	Results Not Demonstrated
<b>Summary findings:</b>	<p>The assessment found that the Screeener Workforce program, though making progress, is unable to demonstrate outcome-based performance results. TSA is addressing past design flaws including inappropriate staffing levels, poor distribution of screeners among airports, and the inordinate use of full time over part time screeners. TSA recently undertook a workforce realignment effort and developed a draft screeener staffing model. While TSA has been working aggressively to put in place procedures, systems, and processes to measure cost effectiveness and achieve efficiencies, most are not yet sufficiently in place. TSA has not yet established targets and timeframes for most annual and long term goals.</p>				
<b>Actions to address recommendations:</b>	<p>In response to these findings, the Administration included funding to sustain and improve the screeener workforce in its fiscal year 2006 budget to Congress. The program developed performance targets for new performance measures, and undertook a more comprehensive and thorough evaluations on workforce issues to better understand how to address workforce performance needs.</p>				

OFFICE OF MANAGEMENT and BUDGET EVALUATIONS

Program Name	DHS Entity	Name of Evaluation	By	Date	Rating on Program Findings
Screening Technology	TSA	Baggage Screening Technology	OMB	2005	Results Not Demonstrated
<b>Summary findings:</b>	<p>The assessment found that the Baggage Screening Technology program was unable to demonstrate outcome-based performance results: 1) The baggage screening technology architecture is sound, although questions exist regarding the efficiency of its current deployment within airports. 2) The program now has strong performance measures, but targets are under development. The program has not yet undertaken an evaluation of sufficient scope and quality. 3) TSA is in the process of implementing better management information systems so that performance oversight of technology contractors is improved.</p>				
<b>Actions to address recommendations:</b>	<p>In response to these findings, the Administration include funding in the fiscal year 2006 submitted to Congress to maintain the checked baggage system, and begin upgrading systems with next generation technology. TSA developed a business plan and Strategic Plan and Quality Management System to address performance measurement deficiencies. The program developed performance targets for new performance measures which will be in the fiscal year 2007 budget, and completed a comprehensive capital plan that addresses long term system performance needs.</p>				

OFFICE OF MANAGEMENT and BUDGET EVALUATIONS

Program Name	DHS Entity	Name of Evaluation	By	Date	Rating on Program Findings
Screening Technology	TSA	Passenger Screening Technology	OMB	2005	Results Not Demonstrated
<b>Summary findings:</b>	<p>The assessment found that the Passenger Screening Technology program was unable to demonstrate outcome-based performance results: 1) The passenger screening technology architecture is sound, although some shortcomings exist including the quality of screening for explosives. 2) The program recently developed strong performance measures, but targets are still under development. The program has not yet undertaken an evaluation of sufficient scope and quality. 3) TSA is in the process of implementing better management information systems so that performance oversight of technology contractors is improved.</p>				
<b>Actions to address recommendations:</b>	<p>In response to these findings, the Administration included increases in the fiscal year 2006 budget to deploy new passenger screening technology to ensure all higher risk passengers receive improved screening for explosives. The program developed and implemented performance targets for the new performance measures, and completed a comprehensive capital plan that addresses long term system performance needs.</p>				

## OFFICE OF MANAGEMENT and BUDGET EVALUATIONS

Program Name	DHS Entity	Name of Evaluation	By	Date	Rating on Program Findings
Screener Support	TSA	Screener Training	OMB	2005	Adequate
<b>Summary findings:</b>	<p>The assessment found that TSA has largely addressed design flaws identified through internal and external reviews, and is working to improve overall performance. TSA increased the level and scope of supervisory training, instituted processes to identify and remediate screener skill gaps, standardized remedial training and improved access to training courses through an online learning center. Some important training issues still need to be addressed, including validating current remedial training standards and ensuring connection with the implemented staffing and operational constraints.</p>				
<b>Actions to address recommendations:</b>	<p>In response to these findings, the Administration included funding in the fiscal year 2006 budget for additional technology infrastructure, which will improve TSA's ability to train employees and monitor performance. During fiscal year 2005 the program continued to address training system and performance shortfalls, and ensured recently adopted performance measures and targets are effective for the long term for measuring training system performance.</p>				

## OFFICE OF MANAGEMENT and BUDGET EVALUATIONS

Program Name	DHS Entity	Name of Evaluation	By	Date	Rating on Program Findings
Ice Operations	USCG	The Coast Guard Domestic Icebreaking Program	OMB	2005	Effective
<b>Summary findings:</b>	The PART review of this program determined that the USCG domestic icebreaking program: 1) Addresses a market failure to provide commercial icebreaking services. 2) Has a robust performance measurement program, but performance targets that are not particularly ambitious at the outcome measure level (i.e., GPRA-reporting level). 3) Holds USCG Officers accountable for achieving the program's mission. 4) Contributes to questions about sound financial management practices at the USCG. 5) Incorporates a sufficient degree of independent analysis and review that shows significant economic benefit for continuing the program.				
<b>Actions to address recommendations:</b>	The USCG will develop more ambitious performance targets which will be included in the fiscal year 2007 budget when sent to Congress in February of 2006 after clearance by OMB.				

Program Name	DHS Entity	Name of Evaluation	By	Date	Rating on Program Findings
Ice Operations	USCG	The Coast Guard Polar Icebreaking Program	OMB	2005	Results Not Demonstrated
<b>Summary findings:</b>	The OMB Program Analysis and Review of this program determined that: 1) Currently, scientific research programs are the primary beneficiaries of the USCG's annual polar icebreaking operations. 2) Funding for the polar icebreaking program is not adequately aligned with the agencies that receive benefits, and that the USCG ice breaking operation provides a de facto subsidy to the scientific community. 3) The program has neither long-term nor annual performance measures to gauge its effectiveness or efficiency, but is working to address this shortcoming. 4) USCG Officers who manage this program are held accountable for achieving the program's mission. OMB recommended actions be taken to remedy shortcomings associated with the fiscal year 2003 CFO Audit results, as well as work towards improving the program's performance metric framework.				
<b>Actions to address recommendations:</b>	In fiscal year 2005 the USCG made strides toward the development of improved performance measures to gauge its effectiveness and efficiency. USCG Officers who manage this program are held accountable for achieving the program's mission.				

## OFFICE OF MANAGEMENT and BUDGET EVALUATIONS

Program Name	DHS Entity	Name of Evaluation	By	Date	Rating on Program Findings
Migrant Interdiction	USCG	Migrant Interdiction Program	OMB	2005	Moderately Effective
<b>Summary findings:</b>	<p>The Migrant Interdiction PART review underscored the need for improvements to the USCG's financial management system as identified during its fiscal year 2003 CFO audit, and the USCG is seeking to address these issues by implementing a financial management remediation plan. The PART also identified some concerns with the USCG's ability to meet its long-term performance goals. The USCG contracted with the Center for Naval Analyses (CNA) to conduct a 3rd party program evaluation of the Migrant Interdiction program. CNA subsequently studied the program's performance measurement framework in depth, and offered several improvement recommendations.</p>				
<b>Actions to address recommendations:</b>	<p>The USCG assessed the feasibility of implementing several of CNA's recommendations, including those related to performance measures improvements.</p>				

Program Name	DHS Entity	Name of Evaluation	By	Date	Rating on Program Findings
Foreign Protectees and Foreign Missions	USSS	Foreign Protectees/Foreign Missions	OMB	2004	Effective
<b>Summary findings:</b>	<p>The PART assessment found that this program effectively fulfills its mission. The program provides the capability to centrally coordinate logistics, advanced security surveys, intelligence analysis and dissemination, and other planning activities preceding actual protectee visits. The Secret Service has adopted specific, ambitious long-term performance goals and annual performance measures demonstrating progress toward them. The strategic planning process emphasizes the proactive and continuous improvement that the constantly changing protective environment mandates. The program has not engaged in comparative analysis with other Federal, State, and Local law enforcement agencies' protective programs or elements, though many security agencies view the Secret Service as a model for protective services and methods.</p>				
<b>Actions to address recommendations:</b>	<p>The Secret Service continued to make progress achieving annual and long-term performance goals as reflected in the performance section of this Performance and Accountability Report. In addition the Secret Service developed a Foreign Protection/Mission Efficiency index to demonstrate efficiencies.</p>				

## OFFICE OF MANAGEMENT and BUDGET EVALUATIONS

Program Name	DHS Entity	Name of Evaluation	By	Date	Rating on Program Findings
Protective Intelligence	USSS	Protective Intelligence	OMB	2004	Effective
<b>Summary findings:</b>	The PART assessment found that this program effectively fulfills its mission requirements. It provides Secret Service personnel with timely and relevant information needed to carry out associated protective operations. Advance agents are able to determine the appropriate level of operational resources needed for protectee visits based on the provided intelligence. The program works in partnership with numerous law enforcement and intelligence agencies to achieve its ambitious annual and long term goals. The agency has recently developed a protective intelligence efficiency index which will demonstrate improved efficiencies.				
<b>Actions to address recommendations:</b>	The Secret Service continued to make progress achieving annual and long-term performance goals as reflected in the performance section of this Performance and Accountability Report. In addition the Secret Service developed a Foreign Protection/Mission Efficiency index to demonstrate efficiencies.				

## OTHER EVALUATIONS

<b>Program</b>	<b>Automation Modernization</b> Customs and Border Protection
<b>Evaluation Name</b>	Government Accountability Office (GAO): Report #GAO-04-719 - INFORMATION TECHNOLOGY: Early Releases of Customs Trade System Operating, but Pattern of Cost and Schedule Problems Needs to be Addressed (GAO-04-719)
<b>Rating</b>	Moderately Effective
<b>Description</b>	This study addresses the extent to which the latest Expenditure Plan, for fiscal year 2004, satisfies legislative conditions, provides information about the Department's efforts to implement GAO's recommendation for improving ACE management, and makes observations about ACE.
<b>Recommended Actions / Actions Taken</b>	The CBP Office of Information and Technology is pursuing procurement of Independent Verification and Validation (IV&V) and independent cost estimating services from a source with no prior involvement in the modernization program to ensure independence. The next major milestone is award of contract to provide IV&V and independent cost estimating services. Until this acquisition can be completed, the Federally Funded Research and Development Center (MITRE) will continue to offer assessments of the Modernization program, reporting through the Special Assistance for Audit and Quality Assurance as a means of providing an interim solution to concerns about independence raised by GAO.

## OTHER EVALUATIONS

<b>Program</b>	<b>State Preparedness Grants Program</b> Preparedness
<b>Evaluation Name</b>	Homeland Security: Management of First Responder Grant Programs Has Improved, but Challenges Remain (GAO-05-121)
<b>Rating</b>	Moderately Effective
<b>Description</b>	<p>The Government Accountability Office (GAO) observed that SLGCP has established grant award procedures for states and localities that support efforts to improve accountability in state preparedness planning. In particular, GAO noted the following substantive improvements:</p> <ul style="list-style-type: none"> <li>• SLGCP gave states additional flexibility in administering and distributing grants;</li> <li>• SLGCP improved grant reporting and monitoring procedures;</li> <li>• SLGCP required states to update state strategies to guide grant spending;</li> <li>• SLGCP has worked with state and local officials to address concerns related to homeland security needs assessments;</li> <li>• SLGCP has begun work on drafting national preparedness standards to better assess first responder needs;</li> <li>• SLGCP improved its grant monitoring activities; and</li> <li>• SLGCP revised its grant guidance to allow states and localities to increase the percentage of grant funds that could be used for grant management and administration.</li> </ul>
<b>Recommended Actions / Actions Taken</b>	<p>The report also noted a series of remaining challenges for SLGCP in managing first responder grants. In particular, GAO noted the need to balance timely and efficient awarding of grants against effective oversight and administration of grant awards. Despite SLGCP's efforts to balance these issues, some states have procurement requirements and approval processes that result in significant delays in grant awards. Some states, in conjunction with the Department, have modified their procurement practices to expedite the procurement of equipment and services. To address this concern, the Department has initiated efforts to identify and disseminate best practices on how states and localities can manage legal and procurement issues that affect grant distribution.</p>

## OTHER EVALUATIONS

<b>Program</b>	<b>Targeted Infrastructure and Capability Grants Program</b> Preparedness
<b>Evaluation Name</b>	Review of the Port Security Grant Program (OIG-05-10)
<b>Rating</b>	Moderately Effective
<b>Description</b>	<p>The Department of Homeland Security Office of the Inspector General (OIG) assessed the strengths and weaknesses of the Port Security Grant Program. The OIG observed that the program had successfully provided funds for security within the maritime industry, had generated additional protective and deterrent investments, and had significantly increased awareness of port-related security needs. The report also noted that the program had positive, collaborative relationships with other port-security entities, particularly the Transportation Security Administration, USCG and the Department of Transportation's Maritime Administration (MARAD). The report also issued a series of recommendations to improve the strategic impact of the program and to better align its priorities and goals with national priorities.</p>
<b>Recommended Actions / Actions Taken</b>	<p>The report issued 12 specific recommendations designed to improve overall program performance:</p> <ul style="list-style-type: none"> <li>• Determine to what extent the program should incorporate Maritime Transportation Security Act (MTSA) requirements;</li> <li>• Incorporate critical infrastructure and key asset data from the Department's Information Analysis &amp; Infrastructure Protection (IAIP) directorate into the evaluation of proposed port security projects;</li> <li>• Consider changing the weighting of the application evaluation criteria, with greater emphasis placed on the criteria that reduce critical vulnerabilities;</li> <li>• Cease the practice of funding projects that do not meet the definition of a Priority I project;</li> <li>• Require grant application reviewers to document their decisions in the grants management system;</li> <li>• Develop parameters that better define applicant eligibility;</li> <li>• Communicate information to field reviewers to educate them on eligibility and lessons learned;</li> <li>• Evaluate timeframes for reviewing applications with an emphasis on providing more time for review in the field and by the Executive Review Board (ERB);</li> <li>• Clarify the policy on funding private sector projects;</li> </ul>

## OTHER EVALUATIONS

<p><b>Recommended Actions / Actions Taken (Continued)</b></p>	<ul style="list-style-type: none"> <li>• Accelerate the acquisition of more information from applicants about the scope of their projects;</li> <li>• Ensure that the program has sufficient operational expertise to administer the program after the award is made; and</li> <li>• Seek clarification on the legislative intent for the program and align all program elements to comply with that intent.</li> </ul> <p>The program concurred with 11 of the 12 recommendations and sought to incorporate them into fiscal year 2005 grant guidance and activities. On July 1, 2005 the OIG confirmed that SLGCP had sufficiently responded to all the recommendations, closing the review process.</p>
<p><b>Program</b></p>	<p><b>US-VISIT</b> Screening Coordination Operations</p>
<p><b>Evaluation Name</b></p>	<p>Some Progress Made, but Many Challenges Remain on US-VISIT Program (GAO-05-202)</p>
<p><b>Rating</b></p>	<p>Moderately Effective</p>
<p><b>Description</b></p>	<p>The Department is to develop and submit for approval an expenditure plan for US-VISIT that satisfies certain conditions, including being reviewed by GAO. As agreed, GAO's objectives were to: (1) determine whether the US-VISIT fiscal year 2005 expenditure plan satisfies the legislative conditions, (2) determine the status of our US-VISIT open recommendations, and (3) provide any other observations about the expenditure plan and the Department's management of US-VISIT. Among other things, GAO was asked to determine whether the plan satisfied these conditions and to provide observations on the plan and the Department's program management.</p>
<p><b>Recommended Actions / Actions Taken</b></p>	<p>To better ensure that the US-VISIT program is worthy of investment and is managed effectively, GAO reiterates its prior recommendations and further recommends that the Secretary of Homeland Security direct the Under Secretary for Border and Transportation Security to ensure that the USVISIT program director takes the following five actions: (1) Fully and explicitly disclose in all future expenditure plans how well DHS is progressing against the commitments that it made in prior expenditure plans. (2) Reassess its plans for deploying an exit capability to ensure that the scope of the exit pilot provides for adequate evaluation of alternative solutions and better ensures that the exit solution selected is in the best interest of the program. (3) Develop and implement processes for managing the capacity of the US-VISIT system. (4) Follow effective practices for estimating the costs of future increments. (5) Make understanding the relationships and dependencies between the US-VISIT and ACE programs a priority matter, and report periodically to the Under Secretary on progress in doing so.</p>

## OTHER EVALUATIONS

<b>Program</b>	<b>Transportation Worker Identification Credential</b> Transportation Security Administration
<b>Evaluation Name</b>	Port Security / Maritime Worker Identification Card (GAO-05-106)
<b>Rating</b>	Moderately Effective
<b>Description</b>	GAO assessed what factors limited TSA's ability to meet its August 2004 target date for issuing cards and what challenges remain for TSA to implement the card.
<b>Recommended Actions / Actions Taken</b>	GAO recommended that the Secretary of Homeland Security direct the TSA Administrator to employ industry best practices for project planning and management, by developing a comprehensive project plan for managing the remaining life of the project and other specific, detailed plans for risk mitigation and cost-benefit and alternatives analyses.

<b>Program</b>	<b>Information and Customer Service</b> United States Citizenship and Immigration Services
<b>Evaluation Name</b>	Immigration Services: Better Contracting Practices Needed at Call Centers (GAO-05-526)
<b>Rating</b>	Adequate
<b>Description</b>	<p>The U.S. Citizenship and Immigration Services (USCIS) within the Department of Homeland Security (DHS) provides toll-free telephone assistance through call centers to immigrants, their attorneys, and others seeking information about U.S. immigration services and benefits. As the volume of calls increased--from about 13 million calls in fiscal year 2002 to about 21 million calls in fiscal year 2004--questions were raised about USCIS's ability to ensure the reliability and accuracy of the information provided at call centers run by an independent contractor. This report analyzes: (1) the performance measures established by USCIS to monitor and evaluate the performance of contractor-operated call centers; (2) how performance measures were used to evaluate the contractor's performance; and (3) any actions USCIS has taken, or plans to take, to strengthen call center operations.</p> <p>USCIS developed seven performance measures intended to assess the performance and overall quality of responses provided by customer service representatives at contractor-operated call centers. These measures include how quickly calls were answered and the accuracy of information provided. The contract between USCIS and its contractor stipulated that the contractor could earn financial incentive awards if the average monthly performance met or exceeded the standards on a quarterly basis at each of four call centers. Conversely, financial deductions could be</p>

## OTHER EVALUATIONS

<p><b>Description (Continued)</b></p>	<p>made if the standards were not met. USCIS did not finalize the terms regarding how the contractor's actual performance would be calculated, or scored, before awarding the contract. This limited USCIS's ability to exercise performance incentives (positive or negative) because the parties could not reach agreement on performance terms. USCIS suspended the use of financial incentives while the parties negotiated the issue. Agreement was not reached after 16 months, however, USCIS determined that the contractor had failed to meet standards for 4 of the 7 performance measures in the fourth quarter of 2004 and took action to reduce its payments for services. The contractor objected, citing the lack of agreement on the performance measurements and the impact of workload increases, but USCIS disagreed and stated it would reduce payment. In a separate but related matter, USCIS failed to meet contractual, regulatory, and GAO standards pertaining to how the contractor's performance would be documented--especially with respect to any deficiencies. Finally, USCIS exercised its option to extend the call center contract through May 2006, to allow time to solicit and award new call center contracts. USCIS said it intends to finalize performance measurement terms in the new contracts. USCIS used contractor performance data it collected over the course of the contract to identify opportunities to improve customer service and call flow, among other things. Several initiatives were launched as a result.</p>
<p><b>Recommended Actions / Actions Taken</b></p>	<ol style="list-style-type: none"> <li>1. Finalize contract terms related to specific performance measurement requirements before awarding new performance-based call center contracts. Status-Complete. USCIS' new solicitation specifically identifies six contract performance requirements that are non-negotiable.</li> <li>2. Maintain readily available written records of performance assessments and performance evaluation meetings with the contractor. Status-Complete. On April 20, 2005, USCIS assumed the responsibility for administering this contract and written records of performance assessments and performance evaluation meetings are maintained and readily available for review.</li> </ol>

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# Financial Information

Part III

## Message from the Chief Financial Officer

NOVEMBER 14, 2005



**O**ur fiscal year 2005 Performance and Accountability Report (PAR) summarizes the most important financial and program performance information for the Department of Homeland Security (DHS). The report is also 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 our efforts to improve program performance.

### LEADERSHIP AND VISION

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**D**HS leadership remains deeply committed to responsible financial management and places it as one of their top priorities. As the Chief Financial Officer (CFO) of DHS, I am especially aware of the importance of consistent, transparent, and effective Department-wide financial management practices.

The vision for successful financial management at DHS is one where there exists a framework of people, processes, and systems in which DHS stakeholders, such as our leaders and managers of all agencies, have accurate, timely and useful information to make effective decisions in support of the mission. This vision means that we can: support an unqualified opinion on our financial statements; make reasonable assurances over our internal controls on financial reporting; relate our spending to our performance; have integrated financial management systems; and have dedicated, highly talented financial managers who pull all of this together.

In August 2004, former Secretary Ridge initiated the Department's functional integration effort to bring all experts under one integrated method of operation. As a result, a series of Management Directives (MD) were approved in October 2004, including the Financial Management Line of Business Functional Integration Management Directive, which established the DHS authorities and responsibilities of my office and all CFO's within DHS. The directive is the principal document for leading, governing, integrating, and managing financial management functions throughout DHS.

Realizing financial management excellence requires every executive, manager, and employee in the Department to help create an environment that rewards collaboration, promotes best practices, and shares accountability for the performance of the management support systems that enable the Department to fulfill its mission. This concept of functional integration mandates that both component heads and key functional experts are responsible for our strategic goal of organizational excellence in financial management. As Chief Financial Officer, I am accountable for designing the system to optimize the financial management function, setting the standards for functional performance, creating department-wide policies and processes, providing the automated solutions to yield greater efficiencies, and nurturing the development and success of centers of excellence. Component heads will likewise be

accountable to support these progressive business functions as a key part of their commitment to mission accomplishment.

## FINANCIAL REPORTING IMPROVEMENTS

This year, I initiated the Chief Financial Officer's Three Year Vision for DHS Financial Reporting. The theme for fiscal year 2005 is "*Full Visibility and Corrective Actions*." The goals for this year were: 1) timely fiscal year 2005 PAR submission, 2) prepare Secretary's Assertion on Internal Controls over Financial Reporting, 3) reduction of material weaknesses, and 4) qualified balance sheet opinion.

The Department was successful in meeting goals 1 and 2, and it is noteworthy that a successful outcome was achieved in a separate audit at the U.S. Customs and Border Protection. However, owing to material weaknesses in several components, the auditors were unable to complete testing necessary to support an overall opinion on the Department's fiscal year 2005 consolidated balance sheet. In addition, although the number of material weaknesses was not reduced in fiscal year 2005, many corrective actions were successfully carried out in the components and a formal monitoring program was implemented to oversee and measure component progress in addressing their corrective action plans.

In fiscal year 2005, we have made great improvements in the area of financial management, and I fully anticipate in fiscal year 2006 that the corrective actions to address weaknesses in internal control will be substantially implemented. Significant accomplishments to date include:

- We instituted strong quality control processes in the Office of the CFO (OCFO) and issued updated PAR guidance to DHS bureaus early on in the fiscal year;
- We hired and contracted additional accounting personnel that possess complementary technical skills including proficiency with the standard general ledger, financial reporting, system maintenance, internal controls, and financial management policy. In addition, our fiscal year 2006 budget request includes five additional positions;
- We initiated a comprehensive internal control assessment of the consolidated financial reporting process, using the criteria defined by the U.S. Government Accountability Office (GAO) and the recent revisions to OMB Circular A-123 and the DHS Financial Accountability Act (P.L. 108-330);
- We have open communication and regular reporting with the Secretary and Deputy Secretary, and other key stakeholders such as the Office of the Inspector General (OIG) and the independent public accountants;
- We are actively engaged with DHS components through regular Financial Management Working Groups and Internal Control Committee (ICC) meetings;
- We have started the process to have corrective action plans in place in all organizations with material weaknesses and spell out plans for how and when the weaknesses will be remediated;
- The Secretary has clearly communicated to the Department our goals for financial improvement; and

- We have hired a Deputy CFO to assist in driving internal controls and best practices into Department and component financial management operations. Our Deputy CFO led the Secretary's Second Stage Review agenda item for improving financial management.

We understand the challenges that we must address and are confident that the three-year strategy set forth for receiving an unqualified opinion on our consolidated financial statements and for eliminating all material weaknesses will be a success.

## INTERNAL CONTROLS

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One of the unique and most challenging financial management requirements we face at DHS is the audit of internal control over financial reporting. With respect to internal controls, Section 4 of the DHS Financial Accountability Act requires DHS to include in its Performance and Accountability Report for fiscal year 2005, an assertion of internal controls that apply to financial reporting. In addition, Section 4 requires that DHS include an audit opinion of its internal control over financial reporting in DHS' PAR beginning with fiscal year 2006.

The task of examining and documenting internal controls over financial reporting is time consuming and challenging, as many in the private sector would attest, but we agree that it is imperative that DHS move as swiftly as possible to improve financial management and correct identified material weaknesses. This will build a sustainable and reliable financial management framework that will withstand audit scrutiny and assure all that resources are used wisely. DHS will lead the Federal government in this regard.

DHS has initiated extraordinary steps to organize the Department to prepare for an audit of our internal controls over financial reporting. I am very pleased with our trailblazing implementation of an internal controls process. I believe DHS will be a model in the government as others go down this path. Significant accomplishments to date include:

- In December 2004, I directed the DHS Chief Financial Officer Council to nominate senior executives and senior staff to establish an ICC responsible for implementing the internal control provisions of P.L. 108-330.
- Initial ICC activities included developing a charter to set forth the applicable oversight, responsibilities, structure, and management of the group.
- In developing our strategy, we proactively reached out to the: Office of Management and Budget (OMB), CFO Council Financial Management Policies and Practices Subcommittee, DHS OIG, and an independent public accounting firm. In addition, numerous CFO Act agencies have contacted us to share experiences in developing our internal control program.
- In May 2005, with the assistance of a public accounting firm, we developed an implementation guide for complying with the internal control provisions of P.L. 108-330. Our guide provides the strategy and framework for implementing the DHS Financial Accountability Act.
- Over the summer, we executed a detailed and technical seven step plan to support the Secretary's fiscal year 2005 assertion statement and prepare for the fiscal year 2006 audit of internal control over financial reporting. These seven steps included:

1. Identifying the maturity level of internal control over financial reporting.
  2. Assessing entity-level controls using the Government Accountability Office (GAO) Internal Control Management and Evaluation Tool. The GAO Tool was the assessment methodology to support the Secretary's assertion in fiscal year 2005.
  3. Identifying financial reports to be included in the assessment.
  4. Identifying significant line items and related accounts, disclosures, and processes/cycles.
  5. Determining multiple-location coverage.
  6. Summarizing the use of services organizations.
  7. Other considerations including the year end financial reporting process, laws and regulations, system considerations, etc.
- As discussed earlier, we've initiated a comprehensive internal control assessment of the consolidated financial reporting process within the OCFO. In addition, the U.S. Coast Guard, one of our largest components, has initiated process level documentation pilots.
  - Throughout the year, we have also made progress in developing a corrective action planning process. For example in fiscal year 2004, our independent auditors reported we did not prepare corrective actions for all material weaknesses and reportable conditions. This year, we have developed corrective action plans for all material weaknesses and reportable conditions and we are also developing a Management Directive and Process Guide to ensure these corrective action plans demonstrate results.
  - With regard to provisions of the DHS Financial Accountability Act related to DHS-wide management controls, we have established an integrated framework to coordinate our overall internal control assessment with all other internal control-related activities. This framework includes various statutory requirements and overall management or functional areas that cut across many if not all of the DHS components and mission areas.

### **electronically Managing enterprise resources for government efficiency and effectiveness (eMerge<sup>2</sup>)**

The eMerge<sup>2</sup> program is the Department's initiative to further streamline, consolidate, and improve financial management throughout DHS. eMerge<sup>2</sup> will provide a long-term solution to many of the Department's deficiencies and will be critical to improving financial management at DHS components. The eMerge<sup>2</sup> program's end-state vision is to improve systems and processes in DHS; reduce material weaknesses, systems and providers; and increase efficiency and effectiveness.

Since last year, DHS has completed an exhaustive, department-wide requirements definition and design phase, and is finishing our rollout strategy going forward. This spring, in conjunction with Secretary Chertoff's Second Stage Review, we began a reevaluation of our original planned approach to delivering improved financial systems to DHS organizations. The program review objectives are to see if there are additional opportunities to lower the cost and risks and to accelerate the implementation of a department-wide financial management system. Concurrently with the implementation of the long-term solution, the eMerge<sup>2</sup> Program Office is developing DHS-wide financial performance metrics which will be available to the DHS CFO community via an internal website. This dashboard will be vital to achieving DHS' vision of providing meaningful and useful information to managers. It will also be vital to tracking our financial performance as a 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, OMB and Congress, we will realize even greater progress in the coming year.

Sincerely,



Andrew Maner  
Chief Financial Officer

Office of Inspector General

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



**Homeland  
Security**

November 15, 2005

MEMORANDUM FOR: The Honorable Michael Chertoff  
Secretary

FROM:   
Richard L. Skinner  
Inspector General

SUBJECT: Independent Auditors' Report on DHS' FY 2005 Financial Statements

The attached report presents the results of the Department of Homeland Security's (the Department) financial statement audits for fiscal year FY 2005 and FY 2004. These audits were required by the *Accountability of Tax Dollars Act of 2002*. This report is incorporated into the *Department's FY 2005 Performance and Accountability Report*. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audits.

Unfortunately, the Department made little or no progress to improve its overall financial reporting during FY 2005. KPMG was unable to provide an opinion on the Department's balance sheet, and the number of material weaknesses remains 10. The Transportation Security Administration (TSA), which received an unqualified opinion in 2004 from its stand-alone audit, was unable to complete its statements by the end of scheduled fieldwork this year, primarily due to a systems conversion. We have extended TSA's audit for an additional 30 days.

### **Summary**

KPMG was unable to express an opinion on the Department's consolidated balance sheet as of September 30, 2005, and on the consolidated financial statements as of and for the year ended September 30, 2004. The disclaimer was due primarily to financial reporting problems at 5 bureaus. The FY 2005 auditors' report discusses 10 material weaknesses, 2 other reportable conditions in internal control, and instances of non-compliance with 7 laws and regulations, as follows:

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

- A. Financial Management Oversight
- B. Financial Reporting
- C. Financial Systems Security
- D. Fund Balance with Treasury
- E. Property, Plant, and Equipment

- F. Operating Materials and Supplies
- G. Undelivered Orders, Accounts and Grants Payable, and Disbursements
- H. Actuarial Liabilities
- I. Budgetary Accounting
- J. Intragovernmental and Intradepartmental Balances

**Other Reportable Conditions**

- K. Environmental Liabilities
- L. Custodial Revenue and Drawback

**Non-compliance With Laws And Regulations**

- M. Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- N. Federal Financial Management Improvement Act of 1996 (FFMIA)
- O. Federal Information Security Management Act (Electronic Government Act of 2002)
- P. Single Audit Act Amendments of 1996, and Laws and Regulations Supporting OMB Circular No. A-50, Audit Follow-up, as revised
- Q. Improper Payments Information Act of 2002
- R. DHS Financial Accountability Act of 2004
- S. Government Performance and Results Act of 1993

**Moving DHS' Financial Management Forward**

Financial management at the Department continued to falter during FY 2005, primarily due to problems at Immigration and Customs Enforcement (ICE) and the Coast Guard. However, TSA, State and Local Government Coordination and Preparedness (SLGCP), and Emergency, Preparedness and Response (EP&R) also experienced difficulties that they could not overcome by the reporting deadline, and they joined ICE and the Coast Guard in contributing to the Department's disclaimer of opinion. Those difficulties included: a systems conversion at TSA, problems involving SLGCP's accounting service provider, and Hurricane Katrina, which stretched EP&R's accounting resources late in the fiscal year despite its best efforts to support the financial statement audit. With focused management attention, we believe that TSA, SLGCP, and EP&R can get back on track for FY 2006.

ICE and the Coast Guard face much deeper problems, and the accounting problems at ICE further affect the bureaus it services. The auditors reported that financial management at ICE was ineffective and used unreliable processes and procedures for accounting and financial reporting. The auditors further reported that weaknesses in ICE's controls might have allowed ICE and the components it serviced to violate the Antideficiency Act. In particular, ICE had significant problems with respect to the completeness and accuracy of its recorded obligations and their timely recording.

The auditors reported that the Coast Guard did not have an organizational structure that fully supported the development and implementation of effective policies, procedures, and internal controls. Management acknowledged to the auditors that longstanding procedural, control, personnel, and cultural issues existed and had impeded their progress in addressing this structural weakness. The auditors reported that the Coast Guard's personnel rotation policy made it difficult

for the Coast Guard's Chief Financial Officer (CFO) to institutionalize internal controls related to financial management and reporting that were outside his direct organization. Within the Coast Guard's CFO organization, the auditors reported that financial reporting processes were complex and labor-intensive.

Although the Department inherited many of the reported conditions, the Department's CFO is ultimately responsible for ensuring that progress is made in financial management. The auditors reported that the Department's CFO office did not provide effective oversight of bureau corrective action plans to ensure their development, implementation, and successful completion.

DHS executive managers have the authority to set priorities and demand the corrective action for both Departmental and bureau personnel. Their active involvement is critical to moving financial management forward at DHS.

\* \* \* \* \*

KPMG is responsible for the attached auditor's report dated November 14, 2005, and the conclusions expressed in the report. We do not express opinions on the financial statements or internal control or conclusions on compliance with laws and regulations.

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

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

We appreciate the cooperation extended to the auditors by DHS' financial offices. Should you have any questions, please call me, or 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 sheets of the U.S. Department of Homeland Security (DHS) as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, and financing, combined statement of budgetary resources, and statement of custodial activity for the year ended September 30, 2004 (referred to herein as "consolidated financial statements"). 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. We were not engaged to audit the accompanying consolidated statements of net cost, changes in net position, and financing, combined statement of budgetary resources, and statement of custodial activity for the year ended September 30, 2005.

### Summary

As discussed in our report on the financial statements, the scope of our work was not sufficient to express an opinion on the DHS consolidated balance sheet as of September 30, 2005 and on the consolidated financial statements as of and for the year ended September 30, 2004.

Our fiscal year 2005 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 Oversight
- B. Financial Reporting
- C. Financial Systems Security
- D. Fund Balance with Treasury
- E. Property, Plant, and Equipment
- F. Operating Materials and Supplies
- G. Undelivered Orders, Accounts and Grants Payable, and Disbursements
- H. Actuarial Liabilities
- I. Budgetary Accounting
- J. Intragovernmental and Intradepartmental Balances

### Other Reportable Conditions

- K. Environmental Liabilities
- L. Custodial Revenue and Drawback



The results of our tests of fiscal year 2005 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 Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*:

- M. *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*
- N. *Federal Financial Management Improvement Act of 1996 (FFMIA)*
- O. *Federal Information Security Management Act (Electronic Government Act of 2002)*
- P. *Single Audit Act Amendments of 1996*, and Laws and Regulations Supporting OMB Circular No. A-50, *Audit Follow-up*, as revised
- Q. *Improper Payments Information Act of 2002*
- R. *DHS Financial Accountability Act of 2004*
- S. *Government Performance and Results Act of 1993*

DHS financial management systems did not substantially comply with the FFMIA Section 803(a) requirements related to compliance with Federal financial management system requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

As discussed in our report on the financial statements, the scope of our work was not sufficient to express an opinion on the consolidated balance sheet as of September 30, 2005, and we were not engaged to audit the accompanying consolidated statements of net cost, changes in net position, and financing, combined statement of budgetary resources, and statement of custodial activity for the year ended September 30, 2005. 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 on the September 30, 2005 consolidated balance sheet, and had we been engaged to audit the other fiscal year 2005 consolidated financial statements.

The following sections discuss the reasons why we are unable to express an opinion on the accompanying DHS consolidated balance sheet as of September 30, 2005 and on the consolidated financial statements as of and for the year ended September 30, 2004; our consideration of DHS' internal control over financial reporting; our tests of DHS' 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 sheets of the U.S. Department of Homeland Security (DHS) as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, and financing, combined statement of budgetary resources, and statement of custodial activity for the year ended September 30, 2004. We were not engaged to audit the accompanying consolidated statements of net cost, changes in net position, and financing, combined statement of budgetary resources, and statement of custodial activity for the year ended September 30, 2005.

Immigration and Customs Enforcement (ICE), did not adequately maintain its accounting records during fiscal year 2005, or the accounting records of other DHS components – United States Citizenship and Immigration Service (USCIS), Science and Technology (S&T), Information Analysis and Infrastructure Protection (IAIP), DHS Management, and Border and Transportation Security (BTS) Headquarters (referred to herein as “DHS-ICE components”), for which ICE is the accounting service provider. ICE management was unable to provide sufficient evidential matter that supported the balance sheet accounts of ICE and DHS-ICE components as presented in the DHS consolidated balance sheet at September 30, 2005; or make knowledgeable representation of facts and circumstances regarding accounting and budgetary



transactions that occurred in fiscal year 2005. Throughout the year, and at September 30, 2005, ICE did not perform timely reconciliations of balance sheet accounts or complete its investigation of potential errors in the financial statements that may materially affect the fair presentation of the DHS consolidated financial statements, at September 30, 2005; and therefore, DHS management was unable to represent that the ICE and DHS-ICE component balance sheets are fairly stated as of September 30, 2005. The total assets of ICE and DHS-ICE components, as reported in the accompanying DHS consolidated balance sheet at September 30, 2005, are \$5.8 billion or 5.1 percent of consolidated total assets.

The United States Coast Guard (Coast Guard), was unable to provide adequate supporting documentation during fiscal year 2005, particularly with respect to actuarially-derived liabilities, operating materials and supplies, undelivered orders, certain categories of property, plant and equipment, transactions related to the Coast Guard's fund balance with Treasury, and changes in net position and adjustments made as part of Coast Guard's financial reporting process, as presented in the accompanying DHS consolidated balance sheet at September 30, 2005. Adequate evidential matter in support of recorded transactions was not available in all cases and corrective action was not taken prior to the completion of DHS' *Fiscal Year 2005 Performance and Accountability Report*. Because of the significance of these balances, DHS management was unable to represent that the Coast Guard's balance sheet as of September 30, 2005, is fairly stated. The total assets of Coast Guard, as reported in the accompanying DHS consolidated balance sheet at September 30, 2005, are \$11.4 billion or 9.9 percent of consolidated total assets.

State and Local Government Coordination and Preparedness (SLGCP) was unable to resolve discrepancies identified in the data underlying the calculation of its grants payable liability, and the related effect on net position, if any, at September 30, 2005, prior to the completion of DHS' *Fiscal Year 2005 Performance and Accountability Report*. SLGCP grants payable, as reported in the accompanying DHS consolidated balance sheet at September 30, 2005, is \$171 million or 0.2 percent of consolidated total liabilities.

The Transportation Security Administration (TSA) was unable to fully reconcile and support the accuracy and completeness of its accounts payable with the public and net position prior to the completion of DHS' *Fiscal Year 2005 Performance and Accountability Report*. TSA accounts payable with the public and net position, as reported in the accompanying DHS consolidated balance sheet at September 30, 2005, are \$851 million or 1.2 percent of consolidated total liabilities, and \$2.4 billion or 5.4 percent of consolidated total net position, respectively.

Emergency Preparedness and Response (EPR) was unable to fully support the accuracy and completeness of certain components of its deferred revenue and accounts payable, and the related effect on net position, if any, prior to the completion of DHS' *Fiscal Year 2005 Performance and Accountability Report*. These liabilities, as reported in the accompanying DHS consolidated balance sheet at September 30, 2005, are \$1.7 billion or 2.4 percent of consolidated total liabilities.

DHS was unable to reconcile intragovernmental transactions and balances, prior to the completion of DHS' *Fiscal Year 2005 Performance and Accountability Report*, totaling \$1.6 billion, with other Federal trading partners, as of September 30, 2005. In addition, DHS omitted several financial statement note disclosures required by OMB Circular No. A-136, *Financial Reporting Requirements, Part A, Form and Content of the Performance and Accountability Report*.

As discussed above, we were unable to obtain appropriate representations from DHS management with respect to the accompanying DHS consolidated balance sheet as of September 30, 2005, and were unable to determine the effect of the lack of such representations on DHS' financial position as of September 30, 2005. Because of the matters discussed in the six preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying DHS consolidated balance sheet as of September 30, 2005.



We were not engaged to audit the accompanying consolidated statements of net cost, changes in net position, and financing, combined statement of budgetary resources, and statement of custodial activity for the year ended September 30, 2005, and accordingly, we do not express an opinion on those financial statements.

Regarding the fiscal year 2004 consolidated financial statements, ICE 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 fiscal year 2004 consolidated 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 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 our audit procedures sufficiently to determine the extent to which the consolidated 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 consolidated financial statements of DHS as of and for the year ended September 30, 2004.

As discussed in Note 30, DHS restated its fiscal year 2004 consolidated financial statements to correct an error in accounting for budgetary obligations related to the EPR National Flood Insurance Program as previously reported in DHS' fiscal year 2004 consolidated financial statements. We were not engaged to audit the restatement discussed in Note 30, and accordingly, we have not concluded on the appropriateness of this accounting treatment or the restatement of the fiscal year 2004 financial statements.

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 Circular No. A-136. We were unable to complete limited procedures over MD&A, RSSI, and RSI as prescribed by professional standards, because of the limitations on the scope of our audit described in the previous paragraphs of this section of our report. Certain information presented in the MD&A, RSSI, and RSI is based on fiscal years 2005 and 2004 consolidated financial statements on which we have not expressed an opinion. We did not audit the MD&A, RSSI, and RSI and, accordingly, we express no opinion on it. However, in fiscal years 2005 and 2004, we noted that DHS did not reconcile nonfiduciary accounts with its trading partners, as specified by OMB requirements, which could affect the intragovernmental information presented in RSI. In fiscal year 2004, we also noted that DHS did not present as RSI a schedule of budgetary resources by major budgetary account, as required.

The information in the Executive Summary, Performance Information, Other Accompanying Information, and Appendices sections of DHS' *Fiscal Year 2005 Performance and Accountability Report* are presented for purposes of additional analysis, and is not a required part of the consolidated financial statements. This information has not been subjected to auditing procedures, and accordingly, we express no opinion on it.

#### **Internal Control over Financial Reporting**

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



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

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, 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 and L. As discussed in our report on the financial statements, the scope of our work was not sufficient to express an opinion on the consolidated balance sheet as of September 30, 2005, and accordingly, other internal control matters may have been identified and reported had we been able to perform all procedures necessary to express an opinion on the September 30, 2005 consolidated balance sheet, and had we been engaged to audit the other fiscal year 2005 consolidated financial statements.

\* \* \* \* \*

A summary of the status of fiscal year 2004 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 in a separate letter dated November 15, 2005.

### **Internal Controls over Required Supplementary Stewardship Information and Performance Measures**

We noted certain significant deficiencies in internal control over RSSI, discussed in Appendix I that, in our judgment, could adversely affect DHS' ability to collect, process, record, and summarize RSSI. With respect to the design of internal controls relating to existence and completeness assertions over performance measures determined by management to be key and reported in the MD&A section of DHS' *Fiscal Year 2005 Performance and Accountability Report*, we noted certain deficiencies in internal control over reported performance measures, discussed in Appendix I that, in our judgment, could adversely affect DHS' ability to collect, process, record, summarize and report performance measures in accordance with management's criteria.

As discussed in our report on the financial statements, the scope of our work was not sufficient to express an opinion on the consolidated balance sheet as of September 30, 2005, and accordingly, other internal control matters affecting RSSI and performance measures may have been identified and reported had we been able to perform all procedures necessary to express an opinion on the September 30, 2005 consolidated balance sheet, and had we been engaged to audit the other fiscal year 2005 consolidated financial statements.

### **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, exclusive of those referred to in the FFMIA, disclosed six 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.

The results of our tests of compliance with certain provisions of other laws and regulations, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.



The results of our tests of FFMIA, disclosed instances where DHS' financial management systems did not substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and recording of financial transactions in accordance with the United States Government Standard General Ledger, that are presented in Appendices I and II.

As discussed in our report on the financial statements, the scope of our work was not sufficient to express an opinion on the consolidated balance sheet as of September 30, 2005, and accordingly, other instances of non-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 September 30, 2005 consolidated balance sheet, and had we been engaged to audit the other fiscal year 2005 consolidated financial statements.

**Additional Matter.** ICE management represents that they intend to initiate a review over the completeness of obligations recorded in its accounting records that may identify instances of violations of the *Antideficiency Act*, or other violations of appropriation law that may have occurred during fiscal year 2005, and have not been reported as required by Federal government regulations.

### 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 *Government Management Reform Act of 1994* (GMRA), *Accountability of Tax Dollars Act of 2002*, and *Government Corporation Control Act* require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these requirements, DHS prepares and submits financial statements in accordance with Part A of OMB Circular No. A-136.

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;
- Preparing the MD&A (including the performance measures), RSI, and RSSI;
- Establishing and maintaining internal controls over financial reporting; and
- Complying with laws, regulations, contracts, and grant agreements, including FFMIA.

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

**Auditors' Responsibilities.** 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 DHS consolidated balance sheet as of September 30, 2005, or the consolidated financial statements as of and for the year ended September 30, 2004.



In connection with our fiscal year 2005 engagement, we considered DHS' internal control over financial reporting by obtaining an understanding of DHS' internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our 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 DHS consolidated balance sheet as of September 30, 2005, and had we been engaged to audit the other fiscal year 2005 consolidated financial statements.

As required by OMB Bulletin No. 01-02, in fiscal year 2005, we considered DHS' internal control over RSSI by obtaining an understanding of DHS' 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 RSSI and, accordingly, we do not provide an opinion thereon. Further, other matters involving internal control over RSSI may have been identified and reported had we been able to perform all procedures necessary to express an opinion on the DHS consolidated balance sheet as of September 30, 2005, and had we been engaged to audit the other fiscal year 2005 consolidated financial statements.

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 and Performance sections, 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 were unable to complete procedures over the MD&A and performance measures presented in DHS' *Fiscal Year 2005 Performance and Accountability Report*.

In connection with our fiscal year 2005 engagement, we performed tests of DHS' 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 the consolidated balance sheet amounts as of September 30, 2005, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the DHS. 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 DHS consolidated balance sheet as of September 30, 2005, and had we been engaged to audit the other fiscal year 2005 consolidated financial statements. 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.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether DHS' financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. Other instances of non-compliance may have been identified and reported had we been able to perform all procedures necessary to express an opinion on the DHS consolidated balance sheet as of September 30, 2005, and had we been engaged to audit the other fiscal year 2005 consolidated financial statements.



**Distribution**

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

KPMG LLP

November 14, 2005

## Independent Auditors' Report Appendix I – Material Weaknesses in Internal Control

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### A. Financial Management and Oversight

*Background:* In fiscal year 2004, we reported that financial management and oversight at Immigration and Customs Enforcement (ICE) was a material weakness, principally because its financial systems, processes, and control activities were inadequate to provide accounting services to itself and five other substantial Department of Homeland Security (DHS or the Department) components – U.S. Citizenship and Immigration Services (CIS), Science and Technology (S&T), Information Analysis and Infrastructure Protection (IAIP), Management, and Border and Transportation Security (BTS) Headquarters (referred to herein as “DHS-ICE components”). We also reported that weaknesses in financial management oversight hinder the United States Coast Guard’s (Coast Guard) ability to prepare accurate, complete, and timely financial information.

In fiscal year 2004, we also reported that the DHS Chief Financial Officer (CFO) and his staff were challenged by a myriad of issues related to the inception of the Department, many of which were unique matters related to the set-up of the consolidated financial processes of DHS as a single operating entity. The DHS Office of the CFO (OCFO) has taken several positive steps in fiscal year 2005 toward correcting conditions we reported last year, e.g., hired a deputy CFO and additional personnel, prepared guidance and policies, implemented automated monitoring controls, and undertook a self review to improve its controls and processes. In addition, the OCFO implemented new policies and procedures to comply with the *DHS Financial Accountability Act of 2004*, which requires DHS management to provide an assertion on the effectiveness of internal control over financial reporting in fiscal year 2005.

However, the combination of conditions that exist in ICE and DHS-ICE components, the Coast Guard and the OCFO cause an organizational material weakness in financial management and oversight. The operations of ICE and DHS-ICE components for which ICE performs accounting services, combined with the Coast Guard, represent approximately 15.1 percent of total assets, and \$15.4 billion or 14.4 percent of the total DHS fiscal year 2005 budget authority.

*Conditions:* The conditions described below are structural in nature, and rise to the level of a material weakness because they affect the overall integrity of DHS’ consolidated financial statement reporting process and its ability to comply with laws and regulations.

1. ICE has not made sufficient, measurable progress in correcting its financial management oversight and weaknesses. All of the conditions we reported last year are repeated together with new findings. Financial management at ICE has been ineffective. We noted that ICE:
  - Did not have sufficient numbers of qualified financial managers and staff to perform its accounting responsibilities. Despite the hiring of a new acting CFO and a new financial director, ICE relied on OCFO assistance and outside contractors to diagnose problems, make management decisions, and provide routine accounting staff supervision. ICE continued to fall seriously behind in performing 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 the OCFO during fiscal year 2005. Specifically, during fiscal year 2005, ICE financial managers and staff were unable to:
    - Perform analysis of and record basic and routine accounting entries;
    - Correctly apply Federal accounting standards, in many instances, to ensure accurate and reliable financial reporting;

## Independent Auditors' Report

### Appendix I – Material Weaknesses in Internal Control

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- Develop and communicate accounting policies and procedures throughout ICE and the DHS-ICE components it serviced to ensure accuracy and consistency in financial reporting;
  - Timely and accurately respond to data requests from the OCFO during the year; and
  - Establish adequate internal controls that reasonably ensured the integrity of financial data, and that adhered to Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government (Standards)*.
- Lacked a comprehensive strategy to identify the root causes of its financial statement errors and to correct deficiencies in its accounting and financial reporting processes. As a result, pervasive, and potentially systemic, financial statement errors and abnormal balances existed, in both proprietary and budgetary accounts, throughout fiscal year 2005.
  - In conjunction with the DHS-ICE components, ICE continued to operate unreliable processes and procedures that support accounting and financial reporting; resulting in material errors, irregularities, and abnormal balances in the DHS consolidated financial statements that existed for most of fiscal year 2004 and continued unresolved in fiscal year 2005.
  - Continued to execute responsibilities for certain administrative / accounting functions for other DHS components without proper reimbursable agreements to cover these costs, well into the fiscal year.
  - Was unable to quantify and record correcting adjustments to restate the fiscal year 2004 financial statements for known errors.
2. The Coast Guard:
- Has not fully implemented a financial management organizational structure that supports the development and implementation of effective policies, procedures, and internal controls to ensure data supporting financial statement assertions are complete and accurate.
  - Has not established clear management oversight responsibilities and processes to review adjustments to account balances, identify the cause of abnormal balances, and account relationship discrepancies, e.g., budgetary to proprietary reconciliations, and investigate potential financial system concerns such as potential posting logic errors.
  - Has not fully established management oversight functions to ensure that accounting principles are correctly applied, and to provide accounting operational guidance to other offices and facilities within the Coast Guard.
3. The OCFO has not:
- Completed its plan to expand the OCFO with sufficient resources, including personnel with the requisite experience and skills to effectively manage the financial reporting and internal control infrastructure of a large Executive Branch agency.
  - Provided effective management and oversight to ensure that:
    - DHS component corrective action plans were developed, implemented, with progress tracked, and successfully completed, particularly at ICE and the Coast Guard, to support the elimination of material weaknesses and achieve consistent, timely, and reliable

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financial reporting from all DHS components, within the time-period requested by the Secretary;

- Financial management, and reporting problems in DHS components were promptly and effectively addressed;
- Workload among OCFO staff was separated to allow for proper supervisory reviews, and to provide appropriate back-up for key staff; and
- Processes were implemented to draft an accurate and complete DHS *Performance and Accountability Report* (PAR), within a reasonable time-frame after year-end, and to prepare accurate monthly financial statements throughout the year, that did not require restatements to previously published financial statements, as discussed further in Comment B – *Financial Reporting*.

The organizational weaknesses detailed above have led to specific conditions that affect the quality of financial reporting at DHS, and are further described in Comment B - *Financial Reporting*.

*Cause/Effect:* DHS has attempted the stand-up of a large, new, and complex Executive Branch agency, without the assistance of sufficient organizational and accounting expertise. Since its inception in 2003, the Department has not made sufficient investments in human capital and other critical infrastructure necessary for reliable financial processes. The Department CFO's ability to fully address these weaknesses has been significantly impaired by the financial management structure and the need to provide significant oversight at ICE and the Coast Guard. The severity of the conditions at ICE and the Coast Guard caused the CFO of both components to issue statements of "no assurance" on internal control over financial reporting. Due to the significance of the balance sheet accounts at ICE and the Coast Guard to DHS' consolidated balance sheet, the DHS Secretary and CFO were also unable to render assurances on the effectiveness of internal controls over financial reporting in fiscal year 2005.

The human resources, financial systems, processes, and control activities at ICE which also supported the DHS-ICE components were inadequate to process financial transactions for components of their size.

The Coast Guard has made progress in hiring qualified personnel and has developed a corrective action plan; however, management has acknowledged that longstanding procedural, control, personnel, and cultural issues have impeded progress toward installing an effective financial management structure. In addition, the Coast Guard's CFO must coordinate with heads of various divisions who have a role in the accounting and financial reporting processes, but who otherwise have limited exposure to financial statement audits. Further, these division heads change regularly as part of the Coast Guard military assignment and rotation polices, making it difficult for the CFO to institutionalize internal controls related to financial management and reporting that are outside the CFO's direct organization.

As a result, the conditions described above continue to prevent DHS from timely preparation of accurate financial information and reports, and have contributed to the conditions reported in Comment B – *Financial Reporting* of this Appendix. Lack of adequate processes, and sufficient experienced staff or contractors, has led management to place excessive reliance on the financial statement audit 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 adequate processes and skilled management and staff resources are engaged at ICE, the Coast Guard and within the OCFO.

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*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 GAO *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, and segregation of duties, policies, procedures, and monitoring.

*Recommendations:* We recommend that

1. ICE:
  - a) Perform a detailed capabilities assessment of financial personnel at ICE headquarters, the Dallas Finance Center, and the Debt Management Center, to identify critical skill-level gaps and develop and execute a hiring strategy to fill the gaps. In the short-run, solicit assistance from the Office of Management and Budget (OMB) or other Federal agencies by requesting temporary transfers of experienced management and accounting personnel. To be successful with this initiative, an experienced project manager must be identified, and the full support of the DHS Secretary, OCFO and ICE Assistant Secretary will be needed – including, if necessary, an emphasis in the ICE mission statement on reliable financial management and reporting objectives; and
  - b) Critically assess the current accounting systems and processes, especially those with serious material weaknesses. Develop a financial reporting risk profile to assist management with ranking and prioritization of financial accounting, and reporting structural deficiencies. Develop a detailed financial accounting and reporting architecture of necessary systems, policies, processes, procedures, and internal controls; and finally implement corrective action plans to achieve the desired end-state of reliable and timely financial reporting.
2. Coast Guard:
  - a) Evaluate the existing financial management organizational and internal control structure and conduct an assessment to determine the number of personnel and resources needed, along with the requisite skills and abilities necessary to provide effective guidance, and oversight to program offices that are significant to financial management and reporting, and make recommendations to senior management for appropriate changes. Consider the establishment of an Office of Financial Management that would have the authority, ability and appropriate resources to oversee all Coast Guard financial management policy, systems and reporting;
  - b) Establish internal controls and related procedures for performing periodic reviews and oversight to assess the appropriateness, to include compliance with generally accepted accounting principles, of financial policies and procedures, and the design and operating effectiveness of internal controls. Consider prioritizing remediation of material weaknesses given the available resources;
  - c) Establish clear management oversight responsibilities and processes to effectively review adjustments to account balances, identify the cause of abnormal balances and account for relationship discrepancies, e.g., budgetary to proprietary reconciliations, and investigate potential financial system concerns such as potential posting logic errors; and

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- d) Consider establishing a process to benchmark Coast Guard financial management and oversight to other agencies that have been recognized for excellence in financial management, and have an established track record of unqualified opinions on their audited financial statements.
3. The OCFO:
- a) In coordination with its independent auditor, consultants, and the Office of Inspector General, perform a gap analysis of the resource weaknesses, including personnel skill sets, and develop and implement a strategic plan to address those gaps and financial reporting and internal control weaknesses in the OCFO and throughout the Department;
  - b) Continue to supplement its accounting staff with personnel with skill-sets that compliment the current staff and result in a stronger Department-wide control environment;
  - c) Obtain and use authority from the Secretary's office to require DHS components to develop and implement sound, reasonable, appropriately funded, corrective action plans that will eliminate material weaknesses and result in timely, accurate financial reporting. This initiative will likely require assistance from the Secretary's office to emphasize the necessity of good financial management, hold components and departmental management accountable for progress, and in some cases will require substantial cultural shifts and a commitment of resources; and
  - d) Continue to implement processes and controls within the OCFO that will support the timely and accurate completion of the Department's interim financial reports and year-end PAR.

**B. Financial Reporting**

*Background:* Financial reporting at DHS is dependent upon the quality of financial reporting at its individual components, and the ability of the OCFO to consolidate information timely and consistently. Under the current financial reporting structure, the OCFO prepares consolidated financial statements, including footnote and supplementary data, from trial balances and other financial data submitted by the components to the OCFO, and submits data to the Treasury Information Executive Repository (TIER) system. The OCFO is also responsible for development and communication of appropriate accounting policies, ensuring that financial reporting controls exist, and performing certain quality control procedures to monitor financial information. The components are not required to prepare complete financial statements with footnotes and supplementary data that comply with generally accepted accounting principles. The vast majority of DHS' financial reporting resources have remained decentralized at the component level.

*Conditions:* We noted the following internal control weaknesses related to financial reporting in the OCFO and DHS components:

1. The OCFO:
- Was unable to prepare a balanced<sup>1</sup> consolidated financial statement during fiscal year 2005 until November 2005. In addition, the consolidated financial statement disclosures and notes

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<sup>1</sup> Balanced in this context means: assets equal liabilities plus net position, on a consolidated basis, as presented on the balance sheet.

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contained critical errors and inconsistencies, when provided to us less than two weeks before the filing deadline of November 15, and required material adjustments to correct.

- Has not fully documented policies and procedures for many critical activities necessary to adequately manage financial reporting processes, such as policies and procedures related to a year-end or interim close schedule to prepare reliable consolidated financial statements, comprehensive requirements for resolving intradepartmental and intragovernmental elimination discrepancies, and making changes to the PAR guidance disseminated to the DHS components.
- Has not implemented sufficient procedures and monitoring controls to ensure monthly TIER submissions received from the components were prepared timely and accurately, including adequate supporting documentation for elimination entries and adjustments at the consolidated financial statement level necessary to prepare consolidated financial statements.
- Has implemented policies and procedures, but has not required the components to follow the policies and procedures and effectively use recently installed TIER analytical tools to improve the integrity and reliability of financial data at the components, and as a result, the component TIER submissions contained numerous abnormal balances and potential errors that were not explained in a timely manner. In addition, some OCFO personnel accepted explanations from components for financial statement abnormalities that were incomplete and inaccurate, and did not include sufficient detail to inform the reviewer of the nature of the error and when the condition would be corrected.
- Omitted two financial statement note disclosures required by OMB Circular No. A-136, *Financial Reporting Requirements, Part A, Form and Content of the Performance and Accountability Report*, which were:
  - A reconciliation of the Department's fiscal year 2004 budget amounts, as presented in the statement of budgetary resources to the President's budget; and
  - Intra-agency eliminations necessary to prepare the statement of net cost by sub-organization major programs.

#### 2. At Coast Guard:

- The financial reporting process was complex and labor-intensive, and required a significant number of "on-top" adjustments (adjustments made outside the core accounting system for presentation of financial information given to DHS for consolidation). A significant amount of manual review was required to integrate data from three separate general ledger systems and overcome system and process deficiencies. One of the most significant deficiencies was that the Coast Guard produced its TIER submission from a database that did not have detail at the transactional level, and that did not agree to the transactional balances in the Coast Guard's general ledgers.
- Significant abnormal balances existed in its TIER submissions, but the Coast Guard only had limited procedures for identifying and resolving those abnormal balances, and potential errors at a transaction level. As a result, the Coast Guard made routine "top-side" adjustments to prepare its monthly TIER submission to the OCFO that, in some cases, might have masked potential errors that instead should have been researched.

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- The Coast Guard routinely used analytical comparisons to identify adjusting entries to the financial statements, without verifying that the ending balances were properly supported at the transaction level, e.g., budgetary accounts were adjusted to equal proprietary accounts, without verifying that the underlying transactional detail supported the ending balances.
  - 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 effective management review, approval of individual adjusting entries, or procedures to determine that all necessary adjustments were identified.
  - The processes used for some account reconciliations were not well designed. For example, procedures for reconciling cumulative results of operations, and resolving inconsistencies in the accounting treatment for inter-entity balances were weak and in many cases lacked documentation.
  - Personnel did not effectively complete the GAO Disclosure Checklist for the September 30, 2005 DHS financial statements.
3. ICE has not:
- Established effective internal controls over the daily accounting and recording of transactions, supervisory review, reconciliation of accounts, and documentation of supporting information for auditor review. ICE routinely made “top-side” adjustments to financial information that was not adequately reviewed, supported by transactional data, or documented. For example, we noted that personnel often approved adjusting general ledger entries for which they did not have a thorough knowledge or understanding, and adequate supporting documentation for the adjusting journal entries was not maintained.
  - Reconciled quarterly *Report on Budget Execution* (SF-133)s to approved *Apportionment and Reapportionment Schedule* (SF-132)s for all Treasury Appropriation Fund Symbol (TAFS) accounts. At September 30, 2005, we noted differences in the amounts reported in FFMS (the core accounting system) and some SF-133s and SF-132s, totaling more than \$550 million across ICE and DHS-ICE components that could indicate a potential violation of the *Antideficiency Act*.
  - Adequately designed the processes to be used for some account reconciliations. For example, procedures for reconciling cumulative results of operations, and resolving inconsistencies in the accounting treatment for inter-entity balances were weak and in many cases lacked documentation.
  - Provided guidance to DHS-ICE components regarding how to process financial transactions timely and accurately, and did not have documented policies and procedures that will ensure that financial information submitted monthly to the OCFO is in compliance with generally accepted accounting principles.
  - Adhered to the schedule set by the OCFO, to submit accurate monthly TIER reports and other accompanying information, complete the GAO checklist, and provide other information needed by the OCFO to prepare the fiscal year 2005 PAR. For example, we noted that ICE was unable to file an accurate TIER submission without DHS CFO waivers of significant error conditions for every month we reviewed (seven in total), and was unable to perform an effective hard-close at June 30, 2005, as requested by the DHS CFO.

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- Successfully integrated the Federal Protective Service (FPS) accounting processes from the General Service Administration (GSA) to ICE, creating numerous issues with the integrity of FPS transaction data.
4. The Transportation Security Administration (TSA) experienced difficulties in the monthly closing of its general ledger due, in part, to its change in accounting services providers. Specifically, we noted accrual amounts were not included in the initial financial data submission for year-end, numerous other on-top adjustments were made thereafter, account reconciliations were not performed timely throughout the year, material abnormal balances and analytical account variances were not resolved timely throughout the year, and detailed schedules to support financial statement amounts were not always provided timely.
  5. The Coast Guard and ICE did not have effective financial information systems, or sufficiently documented processes, to accumulate cost data by DHS strategic goal, as required by Statement of Financial Accounting Standard (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards*. In addition, TSA and Emergency Preparedness and Response (EPR) did not have documentation to support their presentation of the full cost for each strategic goal, as included in the notes to the consolidated financial statements.
  6. Office of State and Local Government Coordination and Preparedness (SLGCP) has not obtained a thorough understanding of control activities over the financial reporting processes performed by its accounting service provider on its behalf, to ensure services received are consistent with the intent of the parties. The financial statement impact of this condition is further explained in Comment G – *Undelivered Orders, Accounts and Grants Payable, and Disbursements*, in this appendix.
  7. EPR's contractor for the National Flood Insurance Program (NFIP) did not provide final NFIP financial statements until November 8, 2005, after the time that final EPR fiscal year 2005 financial statement balances had been submitted to the OCFO. The NFIP financial statements reported an accounts payable balance that was approximately \$3 billion lower than the estimate provided to the OCFO, and consequently DHS was required to record a late adjustment in the consolidated financial statements to true-up the final balances. Without timely receipt of the NFIP financial statements, EPR is unable to make an accurate estimate of accounts payable related to the NFIP. In addition, the required timing of the contractor's Statement of Auditing Standards No. (SAS 70) *Service Organizations*, review report has not been modified based on accelerated financial statement reporting deadlines for the Federal government

*Cause/Effect:* Many of the issues mentioned above stem from the conditions described in Comment A - *Financial Management and Oversight*. The OCFO is still working to develop effective and consistent financial policies and procedures that will ensure a smooth and reliable month-end close for all components. Financial data received from the components during fiscal year 2005 often contained large abnormal or unusual balances that were not timely reviewed and cleared. The lack of quality financial data received from the components placed a heavy burden on the OCFO to identify the issues, reconcile accounts, engage the components in researching the issues, and eventually work with the components to record correcting entries – before accurate consolidated financial statements could be prepared. The OCFO is not staffed to perform these functions on a regular basis. As described above, some components have not developed adequate policies and procedures to perform a reliable monthly close, and accurately export data from their general ledgers for periodic TIER submissions.

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At the Coast Guard, 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. In addition, the Coast Guard suffers from system deficiencies that make the financial reporting process more complex and difficult. ICE has been unable to successfully complete the integration of the accounting processes of the five DHS components for which it became responsible in fiscal year 2004. A financial accounting system conversion at TSA, during fiscal year 2005, contributed to its reporting problems, and caused errors and delays in DHS financial reporting.

SLGCP places a significant amount of reliance on its accounting services provider, an entity outside DHS, 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.

Companies participating in the NFIP are required to submit their NFIP-related financial statements to EPR's contractor each month within 21 days of the month end. The contractor combines these financial statements with the financial information for the NFIP's administrative activities, and then submits final NFIP financial statements to EPR for recording in EPR's general ledger. However, the process of compiling the information into the final NFIP financial statements can be an extended process, because it takes time for the information to be received from the NFIP participants and then for that information to be properly processed and reported.

*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) Implement a standardized financial reporting process, including formal policies and procedures that require components to prepare financial reporting closing packages with footnotes and supplementary data that comply with generally accepted accounting principles to assist the components and the OCFO to execute a monthly close that results in complete and reliable financial reporting on an interim basis, and at year end. The interim hard close and year-end process should include procedures to prepare financial statement notes, Management's Discussion and Analysis (MD&A), Required Supplementary Stewardship Information (RSSI), Required Supplementary Information (RSI), and performance data that are in full compliance with generally accepted accounting principles, and OMB Circular No. A-136. The OCFO should perform several "test runs" during fiscal year 2006, e.g., each quarter, to critically evaluate and improve the process as necessary;

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- b) Assist the components with an assessment to determine the reasons for TIER reporting delays and provide management oversight to correct weaknesses;
  - c) Maintain supporting documentation for all elimination and other adjusting entries made at the consolidated financial statement level; and
  - d) Establish procedures that will improve the effectiveness of monitoring controls over financial data to ensure that abnormal balances and potential errors submitted by the components are resolved monthly.
2. Coast Guard:
- a) Conduct an assessment of its current financial reporting process, including a review of its three general ledger systems, with the goal of reducing complexity, implementing appropriate internal controls, improving financial systems integration and automating manual processes. Processes should be designed to ensure that all financial statement line items are fully supported by transactional detail contained in the general and subsidiary ledgers, and causative research performed for imbalances and abnormalities. The timely reconciliation of all account balances to transactional detail should be documented and retained for auditor review throughout the year;
  - b) Improve documentation for year-end closing entries, including effective management review and approval, and clear identification of all on-top adjustments with all associated general ledger account entries;
  - c) Analyze and, as appropriate, redesign its processes for account reconciliations; and
  - d) Implement policies and procedures to fully identify and resolve significant abnormal balances at a transaction level before the monthly TIER is submitted to the OCFO.
3. ICE:
- a) Establish effective internal controls over the daily accounting, recording, reconciliation and documentation of transactions. Supervisory reviews should be performed by persons with sufficient knowledge to be an effective control, i.e., to discover an error through review. Specific procedures and controls should be implemented over “top-side” adjustments made to financial information because these transactions are more prone to error;
  - b) Reconcile its SF-133s to approved SF-132s on a quarterly basis, and research and resolve the discrepancies that existed at September 30, 2005, and report any violations of the *Antideficiency Act*;
  - c) Analyze and, as appropriate, redesign its processes for account reconciliation;
  - d) In conjunction with the DHS CFO, implement policies, procedures, and guidance that fully describe how operating offices and DHS-ICE component entities are required to process accounting transactions. When complete, the redesigned processes should result in timely and accurate financial information submitted monthly to the OCFO that is in compliance with generally accepted accounting principles;
  - e) Establish and maintain routine communication channels with the DHS OCFO to assist in meeting deliverable deadlines; and
  - f) Continue efforts to resolve all issues arising from the integration of FPS accounting processes from GSA to ICE.

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4. TSA:
  - 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 perform regular quality control reviews of financial reports; and
  - b) Document key standard operating procedures (SOPs) for significant financial reporting processes, including the TIER submissions.
5. The Coast Guard and ICE should develop financial information systems and document processes to accumulate and present cost data by DHS strategic goal, as required by SFFAS No. 4. Additionally, TSA and EPR should develop a process to validate, document and report the full cost of each strategic goal, as presented in the notes to the DHS consolidated financial statements, so that the computations and presentation in the financial statements are consistent with generally accepted accounting principles.
6. SLGCP:
  - a) Designate an official to perform a financial oversight role, and take responsibility for monitoring the financial processing and reporting activities performed by its accounting services provider. This official should obtain appropriate assurances from the accounting services provider (e.g., through a SAS 70 review report) to be able to assess that controls relevant to SLGCP's financial activities are properly designed and operating effectively; and
  - b) Work with DHS management to migrate SLGCP's general ledger and grants management system to a system maintained by a component within DHS.
7. EPR should coordinate with its NFIP contractor, and modify its existing contract with the company, if necessary, to ensure that (a) the contractor can provide final year-end NFIP financial statements to EPR for inclusion in EPR's final TIER submission, and (b) the contractor's annual SAS 70 report covers at least nine months of DHS' fiscal year and is available in final form no later than September 1, each year.

**C. Financial Systems Security**

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 general controls, financial systems contain application controls which are the structure, policies, and procedures that apply to separate, individual application systems, such as accounts payable, inventory, payroll, grants, or loans.

During fiscal year 2005, DHS took several actions to improve its IT general control environment, and to address many prior year general IT control issues. For example, DHS issued an update to DHS Policy 4300A, *Sensitive System Handbook*. The purpose of this Handbook update was to provide specific techniques and procedures for implementing the requirements of DHS' *IT Security Program for Sensitive Systems*. These actions resulted in the correction of some conditions we reported in 2004. Despite these improvements, several significant general IT and application control weaknesses remain that collectively limit DHS' ability to ensure that critical financial and operational data is maintained in a manner to ensure confidentiality, integrity, and availability.

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*Conditions:* In fiscal year 2005, the following IT and financial system control weaknesses were identified at DHS and its components. Most of the technical issues identified during our fiscal year 2005 audit were also identified during fiscal year 2004:

1. Entity-wide security program planning and management – we noted:
  - Despite improvements in the process of performing Certification and Accreditation (C&A) of IT systems, five DHS component financial and associated feeder systems were not properly certified and accredited.
  - Instances of fragmented, incomplete, or missing security policies and procedures relating to the hiring and termination of employees, reviewing of access to key financial systems, computer incident response capabilities, and interconnectivity agreements exist.
2. Access controls – we noted:
  - Instances of missing and weak user passwords on key servers and databases.
  - User account lists were not periodically reviewed for appropriateness, and inappropriate authorizations and excessive access privileges for group user accounts were allowed.
  - Instances where workstations, servers, or network devices were configured without necessary security patches, or were not configured in the most secure manner.
  - Application and operating system settings were not configured for automatic log-off or account lockout.
3. Application software development and change control – we noted:
  - Instances where policies and procedures regarding configuration management controls were not in place to prevent users from having concurrent access to the development, test, and production environments of the system.
  - Changes made to the configuration of the system were not always documented through System Change Requests (SCRs), test plans, test results, or software modifications. Additionally, documented approval did not exist, or was not always retained, for emergency enhancements, “bug” fixes, and data fixes, and in some cases, audit logs for tracking changes to the data or systems were not activated.
4. 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.
  - Changes to sensitive operating system settings and other sensitive utility software and hardware were not always documented.
5. Segregation of duties – we noted:
  - Instances where individuals were able to perform incompatible functions, such as the changing, testing, and implementing of software, without sufficient compensating controls in place.
  - Instances where key security positions were not defined or assigned, and descriptions of positions were not documented or updated.

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6. Service continuity – we noted:

- Five DHS components had incomplete or outdated business continuity plans and systems with incomplete or outdated disaster recovery plans. Some plans did not contain current system information, emergency processing priorities, procedures for backup and storage, or other critical information.
- Five DHS component's service continuity plans were not consistently and/or adequately tested, and individuals did not receive training on how to respond to emergency situations.

7. Application controls – we noted:

- Several instances of weak access and segregation of duty controls associated with key DHS financial applications, such as a DHS component's core financial application, as well as procurement and payable applications. These weaknesses include weak or expired user passwords, user accounts that were not kept current, and certain users with access privileges to certain key processes of an application. Many of these weaknesses were identified during our general control testing of access controls and segregation of duties; however, since these same issues also impact controls over specific key financial applications, they are reported here as well.

*Cause/Effect:* Many of these weaknesses were inherited from the legacy agencies 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 components, IT and financial system support operations are decentralized, contributing to challenges in integrating DHS IT and financial operations. In addition, financial system functionality weaknesses, as discussed throughout our report on internal controls, in various processes, can be attributed to non-integrated legacy financial systems that do not have the embedded functionality called for by OMB Circular No. A-127, *Financial Management Systems*. Further, there is no consistent testing and monitoring of IT controls by individual DHS components and by the DHS-CIO to identify and mitigate weaknesses.

*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 No. A-130, *Management of Federal Information Resources*, and various NIST guidelines describe specific essential criteria for maintaining effective general IT controls. In addition, OMB Circular No. A-127 prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems.

*Recommendations:* We recommend that the DHS Office of Chief Information Officer in coordination with the OCFO:

1. For entity-wide security program planning and management:

- a) Enforce a DHS C&A program across all DHS components, which should include an emphasis on a consistent and thorough approach to the testing of key technical controls during the certification process; and
- b) Enforce the consistent implementation of security programs, policies, and procedures.

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2. For access control:
  - a) Enforce password controls that meet DHS password requirements on all key financial systems;
  - b) Implement an account management certification process within all the components, to ensure the periodic review of user accounts for appropriate access;
  - c) Implement a DHS-wide patch and security configuration process, and enforce the requirement that systems are periodically tested by individual DHS components and the DHS-CIO; and
  - d) Conduct periodic vulnerability assessments, whereby systems are periodically reviewed for access controls not in compliance with DHS and Federal guidance.
3. For application software development and change control:
  - a) Develop policies and procedures regarding configuration management controls, and implement to ensure segregation of change control duties; and
  - b) Enforce policies that require changes to the configuration of the system are approved and documented, and audit logs are activated and reviewed on a periodic basis.
4. For system software, actively monitor the use, and changes related to operating systems, and other sensitive utility software and hardware.
5. For segregation of duties:
  - a) Document the user responsibilities 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) Assign key security positions, and ensure that position descriptions are kept current.
6. For service continuity:
  - a) Develop and implement complete current business continuity plans, and system disaster recovery plans; and
  - b) Perform component-specific and DHS-wide testing of key service continuity capabilities, and assess the need to provide appropriate and timely emergency training.
7. For application controls:
  - a) Implement policies to ensure that password controls meet DHS password requirements on all key financial applications and feeder systems;
  - b) Implement an account management certification process within all the components, to ensure the periodic review of user accounts for appropriate access; and
  - c) Document the user responsibilities 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.

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#### D. 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 FBWT records with Treasury 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-ICE components it services, and at the Coast Guard totaled approximately \$9.2 billion or 9.5 percent of total DHS assets at September 30, 2005. The majority of these funds represented appropriated amounts that were obligated but not yet disbursed at September 30, 2005.

*Conditions:* We noted the following internal control weaknesses related to FBWT, many of which are repeated from fiscal 2004:

##### 1. ICE:

- Did not complete accurate and timely reconciliations of all of its FBWT accounts during the year, as required by the Treasury Financial Manual (TFM). ICE assumes Treasury balances are correct and often makes adjustments to force its balances to equal Treasury. Specifically, ICE did not perform procedures to reconcile FBWT to Treasury forms 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 Ledger/Trial Balance* in accordance with TFM 5145. In addition, ICE did not maintain documentation supporting the reconciliation processes as required by TFM 2-5100.
- Did not timely clear items carried in suspense clearing accounts during the year. A significant number of transactions were carried in suspense, some of which were more than six months old and related to fiscal year 2004 transactions, totaling over \$100 million dollars in unreconciled balances. In addition, the subsidiary ledger that contained detail listings of suspense transactions was not reconciled to the general ledger.
- Did not accurately clear suspense transactions to the proper obligation or other Standard General Ledger (SGL) account, particularly for Intra-Governmental Payment and Collection (IPAC) transactions from other Federal agencies, and for disbursements made by legacy agencies on behalf of itself and DHS-ICE components.
- Lacked written policies that clearly explain the correct reconciliation processes and internal controls that must be performed to ensure that monthly collection and disbursement activity is reported accurately and timely to the Treasury, and reflected in ICE and DHS-ICE components' general ledgers.
- Was unable to obtain document level information for financial transactions (both procurement and disbursement) of the DHS-ICE components that were processed by legacy agencies, which resulted in large, unreconciled FBWT items.

##### 2. Coast Guard:

- Did not effectively manage its suspense accounts to include accurately aging and clearing items carried in suspense clearing accounts in a timely manner during the year. From a sample of 45 suspense transactions, we identified 5 transactions that were posted to an inappropriate obligating document, and 3 sample items that had activity dates in fiscal years 2001 and 2002.

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- Did not maintain adequate supporting documentation that validated the accuracy of the FBWT reconciliations and the clearing of suspense items.

*Cause/Effect:* The procedures followed by ICE placed inappropriate reliance on the Treasury's records for the status of funds, resulting in incomplete monthly reconciliations. These conditions have existed at ICE for several years, in part because of inadequate management oversight and direction, as discussed in Comment A, above. ICE and Coast Guard did not maintain sufficiently detailed records to clear suspense accounts in a timely manner, and did not use tools available to them to improve the process, such as the *Government-wide Accounting System (GWA)*. Failure to implement timely and effective reconciliation processes could increase the risks of fraud, abuse, undetected violations of appropriation laws, including instances of undiscovered *Antideficiency Act* violations, and mismanagement of funds, which leads to inaccurate financial reporting, and affects DHS' ability to effectively monitor its budget status.

*Criteria:* The TFM<sup>2</sup> states, "Federal agencies must reconcile their 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 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.

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

*Recommendations:* We recommend that:

1. ICE:
  - a) Perform all procedures required by the TFM, including sections 5125, 5145 and Supplement I of TFM 2-5100 and maintain supporting documentation;
  - b) Develop accurate and complete procedures to reconcile and clear FMS 6652 items for its Agency Location Codes (ALCs) on a monthly basis, and provide proper training to employees;
  - c) Develop and implement written policies that require timely and accurate reconciliation, and clearing of suspense balances to the proper SGL account, and retention of adequate supporting documentation that facilitate supervisory review, and other monitoring controls. Typically, significant balances should not be held in suspense more than 30 days; and

<sup>2</sup> TFM, Supplement I TFM 2-5100 (November 1999)

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- d) In conjunction with the DHS OCFO, develop policies and procedures for obtaining relevant legacy agency processed transactions in order to timely record all transactions affecting FBWT.
2. Coast Guard implement written policies, including detailed procedures that result in timely reconciliation of FBWT in accordance with the TFM, timely and accurate clearing of suspense balances, and the retention of adequate supporting documentation that will facilitate supervisory review and other monitoring controls. The policies should be based on Treasury guidance and tailored to the Coast Guard's operations and financial accounting system(s).

**E. Property, Plant, and Equipment**

*Background:* Property, plant, and equipment (PP&E) represents approximately 9.1 percent of total DHS assets and more than 62.6 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, 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 and require comprehensive policies and procedures to ensure accurate and timely accounting. While the Coast Guard has made progress in providing auditable documentation for certain categories of PP&E, most of the conditions cited below for the Coast Guard are repeated from our fiscal year 2004 report, because the Coast Guard has not fully completed its corrective action plans. In addition, as noted in our 2004 report, 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 components, which are mostly repeated from fiscal year 2004:

1. Coast Guard has not:
  - Implemented appropriate controls and related processes to accurately, consistently, and timely record PP&E, to include additions, transfers from other agencies, and disposals in its fixed asset system.
  - Consistently applied policies and procedures to ensure appropriate documentation supporting PP&E acquisitions is maintained, and readily available for audit. The acquisition values of approximately twenty five percent of items selected for testwork did not have proper supporting documentation.
  - 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, system mapping, and tagging processes that include sufficient detail, e.g., serial number, to clearly differentiate and accurately track assets in the fixed asset system.
  - 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 generally accepted accounting principles.

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2. ICE (who provides accounting services for BTS), specifically the US-VISIT program, did not consistently apply procedures to identify and capitalize software development costs or to reclassify software placed into production from software in development. At September 30, 2005, 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 not comprehensive and; therefore, do not provide reasonable assurance that all transactions affecting PP&E will be accounted for consistent with generally accepted accounting principles. 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 for PP&E that ensure complete supporting documentation is maintained and available for audit. As such, we were unable to complete audit procedures over approximately \$1.7 billion of net PP&E as of September 30, 2005.

BTS lacks sufficient accounting policies for software development costs. Over the next few years, significant resources for the development of new software, such as the US-VISIT system, will likely be spent. Therefore, the lack of sufficient policies at BTS increases 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; and
- PP&E accounts be adjusted for disposals, retirements and removal of PP&E, including associated depreciation.

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

SFFAS No. 10, *Accounting for Internal Use Software*, provides requirements for the capitalization and reporting of software development costs. 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*, state 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 processes and procedures to ensure that PP&E, to include additions, transfers, and disposals are recorded accurately, consistently, and timely in the fixed asset system; that an identifying 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;

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- b) Develop and implement internal controls to ensure the quality, sufficiency, and retention of documentation for future PP&E acquisitions and disposals;
  - c) Develop and document methodologies and assumptions to support the value of PP&E that is not evidenced by original acquisition or other sufficient documentation;
  - 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; and
  - e) Review policies and procedures to account for improvements and impairments to buildings and structures, and identify proper useful lives for depreciation purposes.
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.

**F. Operating Materials and Supplies**

*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 the Configuration Management Plus system. These three systems provide the subsidiary records that support the general ledger's OM&S balance. 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 conditions cited below for Coast Guard are based on findings reported in fiscal 2004, updated as necessary to reflect the conditions noted in fiscal year 2005.

*Conditions:* We noted the following internal control weaknesses related to OM&S at the Coast Guard:

- Internal controls over physical counts at field locations were not designed and implemented to remediate conditions identified during fiscal year 2003 and 2004. In fiscal year 2004, we reported that items were not always properly bar-coded or tagged, 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 to be resolved timely. Coast Guard has acknowledged that the weaknesses continued to exist in fiscal year 2005, and represented their intent to implement corrective action over field held OM&S, to include implementation of internal controls, in fiscal year 2006.

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- Policies, procedures and controls designed to remediate conditions related to conducting physical inventories of OM&S at the ICPs were not completely implemented in fiscal year 2005. ICP physical inventory procedures 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 timely manner in fiscal year 2004, and the Coast Guard has acknowledged that the weaknesses continued to exist in fiscal year 2005. Coast Guard management has represented their intent to implement corrective action over ICP physical inventory procedures, to include implementation of internal controls, in fiscal year 2006.
- Processes and controls were not in place to fully support the calculated value of field-held and ICP OM&S to approximate historical cost. Coast Guard management has represented their intent to implement corrective actions over valuation of OM&S in fiscal year 2006.

*Cause/Effect:* Coast Guard management deferred correction of most OM&S weaknesses reported in fiscal year 2004 until fiscal year 2006, and acknowledged that the conditions we reported in prior years remained throughout fiscal year 2005. Lack of comprehensive and effective policies and controls over the performance of physical counts, and appropriate support for valuation may result in errors in the physical inventory process, or inventory discrepancies that could result in financial statement misstatements.

*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 publication *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 the 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 value of OM&S to approximate historical cost.

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**G. Undelivered Orders, Accounts and Grants Payable, and Disbursements**

*Background:* Most of the DHS components estimate accounts payable at year end, for accelerated financial reporting purposes, as a percentage of undelivered orders (UDOs) based on historical trends. UDOs are obligations, or budgetary funds reserved, for good and services ordered but not yet delivered to DHS. Historically, at year-end, DHS has reported approximately \$20 billion in UDOs. Reliable accounting processes surrounding obligations, UDOs, and disbursements are key to the accurate reporting of accounts payable in DHS' financial statements.

ICE had serious difficulties with maintaining accurate financial records related to obligations, UDOs, and disbursements during fiscal year 2005, including the records of DHS-ICE components.

The majority of conditions cited below for Coast Guard are repeated from our fiscal year 2004 report. The Coast Guard has initiated a review of its obligation and procurement processes, including those related to the Integrated Deepwater System, which is targeted for completion in fiscal year 2006.

SLGCP uses its accounting services provider's grants management system to support SLGCP's grant making activities. The grants management system allows grantees to submit their financial status reports electronically via web-based connections.

In late 2004, responsibility for the issuance and related accounting for numerous TSA grant programs was transferred to SLGCP, while TSA retained responsibility for previously issued grants until closeout and certain other grant programs.

*Conditions:* We noted the following internal control weaknesses related to UDOs, accounts and grants payable, and disbursements, many of which are repeated from fiscal year 2004:

1. ICE has not:
  - Established reliable internal controls to ensure that all invoices are paid timely, that all IPACs are cleared from suspense timely, that invoice payments and supporting documentation are matched with an originating obligation prior to disbursement, and that documentation supporting receipt of goods and services required from other Federal agencies for IPAC transactions are verified timely.
  - Recorded disbursements made by legacy agencies for prior year obligations of S&T and IAIP at the transaction level timely, because such information was not provided by the legacy agencies timely. Often, disbursements made by legacy agencies were not identified until ICE prepared its FBWT reconciliations and noticed unrecorded disbursements made against S&T and IAIP funds. Unrecorded legacy agency disbursements ranged from a high of almost \$200 million during the second quarter of fiscal year 2005, to approximately \$10 million at September 30, 2005.
  - Established sufficient controls to prevent duplicate payments to vendors related to prior year obligations or to prevent negative balances in certain Treasury accounts used by both ICE and the legacy agencies to make disbursements.
  - Implemented sufficient controls to ensure that open obligations were properly liquidated when corresponding accounts payable were recorded, and that liquidation was occurring at the proper detailed fund code level.
  - Adopted policies related to verification and validation of obligations performed by field personnel that clearly define their responsibilities, including the proper classification of requisitions that require the completion of receiving tickets upon orders being delivered,

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ensuring receipt of services and goods, prior to payment of invoices and communicate the consequences for not adhering to policy.

- Verified the completeness, existence, and accuracy of its recorded obligations created in PRISM, and other ICE systems. ICE did not have effective controls to monitor the completeness of all procurement, and other obligations, created in the field and program offices. For example, UDO subsidiary ledgers are not routinely reconciled to the general ledger.
2. At the Coast Guard:
- The periodic review and validation of UDOs was not properly designed, and was not effective to ensure that recorded obligations were valid, obligations incurred were recorded timely, and that proper approvals and supporting documentation existed. In addition, programming logic and transaction codes used to record advances for which an obligation was not previously recorded are not operating effectively to ensure the obligation and UDO are properly recorded.
  - A reconciliation of paid delivered orders to FBWT disbursement activity was not performed. Delivered orders - unpaid were not properly and timely reclassified to delivered orders-paid status when disbursements were made. Instead, Coast Guard made on-top adjustments to delivered orders accounts without supporting detail for financial reporting purposes.
  - Policies were not fully implemented to ensure that contract awards were recorded in the general ledger in a timely manner, and as a result, obligations might have been temporarily understated. 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.
  - Policies and procedures related to Coast Guard's automated requisition and procurement process have not been consistently followed in all regions. Specifically, the Financial and Procurement Desktop (FPD) system can be overridden to allow non-conforming numbering for purchase requisitions. This created a risk that commitments were not properly tracked or matched with obligations in the accounting records. FPD were also not properly reconciled to the Core Accounting System (CAS), affecting the completeness, existence and accuracy of the year-end "pipeline" adjustment that was made to record obligations executed before year-end, but which were not made into the system prior to year-end close.
  - 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 fiscal year 2005. The MEA is an important risk assessment, and monitoring control function that, when properly performed, assists in assessing compliance with applicable laws and regulations.
  - The process used to estimate accounts payable was not fully documented as to the criteria used to develop the estimate for financial reporting.
3. SLGCP's accounting services provider was unable to resolve discrepancies identified in the data underlying the calculation of SLGCP's grants payable liability at September 30, 2005, prior to the completion of the DHS *Fiscal Year 2005 Performance and Accountability Report*.

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4. TSA:

- Was unable to fully reconcile and support the accuracy and completeness of its accounts payable and UDOs prior to the completion of the DHS *Fiscal Year 2005 Performance and Accountability Report*.
- Did not have policies and procedures in place to validate TSA's fiscal year 2004 grant accrual to ensure the methodology used provided a reasonable estimate of the actual amount owed September 30, 2004. TSA used the same methodology to estimate the grant accrual at September 30, 2005.

5. EPR, SLGCP, and TSA did not have sufficient policies and procedures in place to fully comply with the OMB Circular No. A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and laws and regulations supporting OMB Circular No. A-50, *Audit Follow-up*, as revised.

*Cause/Effect:* Some of the conditions at ICE resulted from unique circumstances and difficulties with the transfer of S&T, IAIP, and DHS management accounting operations from legacy agencies to ICE in fiscal year 2004. ICE and the DHS OCFO did not establish clear operating procedures or coordinate the sharing of information with legacy agencies. These issues continued in fiscal year 2005, partly because ICE and DHS OCFO management were unable to develop policies and procedures with the legacy agencies requiring the timely transfer of such information. This condition has existed since the inception of the Department in 2003. Further, ICE's system of internal control is weak, allowing financial errors to occur, and be undetected for long time periods. These conditions can also be attributed directly to weaknesses described in Comment A - *Financial Management and Oversight*. 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.

The Coast Guard elected to defer correction of most fiscal year 2004 findings we reported in this area until late in fiscal year 2005 and 2006.

Because SLGCP management did not perform sufficient monitoring of its financial reporting processes, SLGCP could not take timely action to ensure that discrepancies noted in the data underlying the grant accrual calculation would not materially impact its financial statement balances. These weaknesses could result in a misstatement of grant payables, expenses, and UDOs.

At EPR, SLGCP, and 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 No. 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, *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) Establish reliable internal controls to ensure that all invoices are paid timely, all IPACs are cleared from suspense timely, invoice payments are matched with an originating obligation

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prior to disbursement, open obligations are properly liquidated when corresponding accounts payable are recorded, and IPACs are matched with an originating obligation as soon as practicable after the transaction is recorded. Incorporate unique IPAC processing considerations in subsequent disbursement testing procedures;

- b) Establish policies and procedures over disbursements made by ICE operating offices to ensure that disbursements are made only after proper approval of the invoice, and evidence of the receipt of goods and services has been received. 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;
  - c) 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, and improve procedures to prevent duplicate payments from accounts used by both ICE and its service provider;
  - d) Expand the policies and procedures documentation related to obligation verification and validation to more clearly communicate the process to field personnel, and to ensure that supporting documentation exists to substantiate accounts payable balances;
  - e) Issue policies and procedures that require monthly reconciliations of all obligations created in PRISM, and other manual or automated procurement tracking systems to the general ledger; and
  - f) Adhere to existing policies and procedures requiring UDO subsidiary records be routinely reconciled to the general ledger.
2. Coast Guard:
- a) Improve controls related to processing obligation transactions, to include periodic review and validation of UDOs. Emphasize to all fund managers the need to perform effective reviews of open obligations, obtain proper approvals, and retain supporting documentation. Develop effective monitoring controls for reviewing and approving obligation transactions prior to processing;
  - b) Reconcile paid delivered orders activity to FBWT disbursement activity, to ensure that delivered orders are moved from unpaid status properly and timely, and to eliminate the current practice of making unsupported on-top adjustments to delivered orders for financial reporting purposes;
  - c) Improve segregation of duties for transactions related to the creation and approval of purchase requisitions, certification of funds availability, and the recording of the obligations, and record contracts timely;
  - d) 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;
  - e) Update the program logic of FPD to improve controls over document numbering for purchase requisitions. The system design of FPD and the core accounting system should be evaluated to ensure that obligation transactions are correctly processed;

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- f) Reconcile FPD to CAS to ensure the completeness, existence, and accuracy of the year-end “pipeline” adjustment that is made to record obligations executed before year-end but not recorded in the system prior to year-end close;
  - g) 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 MEAs at major procurement regions; and
  - h) Improve documentation of policies, procedures, and controls over the accounts payable estimation process.
3. SLGCP should require its accounting services provider to (a) perform a review to correct discrepancies in the underlying grant data, (b) complete a full validation of the SLGCP grants payable, as presented in the DHS consolidated balance sheet at September 30, 2005, to determine if it is materially misstated, and (c) record a correcting adjustment if necessary to completely and accurately state the balance.
  4. TSA:
    - a) Perform a review to assess whether TSA accounts payable and UDOs, as presented in the DHS consolidated balance sheet at September 30, 2005, are materially misstated and record a correcting adjustment, if necessary, to completely and accurately state the balances; and
    - b) Implement policies and procedures to annually validate that the methodology used to estimate its grant accrual provides a reasonable estimate of the actual amount owed.
  5. EPR, SLGCP, and TSA implement policies and procedures to ensure full compliance with OMB Circular Nos. A-133 and A-50.

**H. Actuarial Liabilities**

*Background:* The Coast Guard maintains pension, medical, and post-employment travel benefit programs that require actuarial computations to determine the proper liability for financial reporting purposes. The 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 Coast Guard. The post-employment travel benefit program is a benefit program that pays the cost of transportation for uniformed service members upon separation from the Coast Guard. The unfunded accrued liability for both plans is reported in the DHS consolidated balance sheet at September 30, 2005 and 2004. Annually, participant data is extracted by Coast Guard from its records, and provided to an actuarial firm as input for the liability calculations. The accuracy of the actuarial liability as reported in the consolidated financial statements is dependent on the accuracy and completeness of the underlying participant data provided to the actuary.

*Conditions:* The Coast Guard:

- Was unable to fully support its assertions relating to accuracy and completeness of the underlying participant data, medical cost data, and trend and experience data provided to, and used by, the actuary for the calculation of the MRS, and post employment travel benefits liabilities. In addition, the salary increase assumptions used by the actuary in the MRS liability were outdated, and the Coast Guard did not have an established process to inform the

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actuary of Congressional legislation that changed allotments, entitlements, calculation methods, and amounts of military pay, which could materially affect the calculation of actuarial liabilities.

- Did not follow established policies and procedures to accumulate data for the actuary to compute post-employment travel benefits. The actuary determined that the data was unreliable and; therefore, could not complete their work. In addition, the Coast Guard's post-employment travel liability at September 30, 2005, did not reflect the most current participant data.
- Did not perform periodic reconciliations between the medical expenditures subsidiary ledger and the general ledger, which would have identified errors in underlying data. In addition, the Coast Guard did not perform a reconciliation of the payroll system data to military personnel records to ensure the accuracy of headcount information prior to the submission of data to the actuary.
- Did not have effective policies, procedures, and controls to monitor the expenditures for medical services to ensure they were billed at proper rates, and for valid participants only, e.g., service members and their families, and retiree/survivors.

*Cause/Effect:* The Coast Guard does not have well-established procedures in place, including adequate internal controls, such as supervisory reviews, to ensure that data and other information provided to the actuary is complete and accurate. Much of the data required by the actuary comes from personnel and payroll systems that are outside of Coast Guard's accounting organization, and are instead managed by Coast Guard's Personnel Service Center (PSC). Strong lines of communication are needed between PSC and accounting personnel. In addition, it appears that the definition of data requirements provided to the PSC is not always clear, resulting in incomplete or inaccurate data being submitted to the actuary, that was not discovered until after the actuary identifies data anomalies, or the underlying participant data is subjected to our audit procedures. As a result of weak controls, errors were discovered too late in the year for corrective action to occur, and the Coast Guard's actuary to recompute the pension and other post-retirement liabilities to accurately state those balances in the DHS consolidated balance sheet as of September 30, 2005.

The Coast Guard could be billed for services provided to non-Coast Guard participants/sponsors. Inaccurate medical costs submitted to the Coast Guard actuary could result in a misstatement of the actuarial medical liability and related expenses.

*Criteria:* GAO *Standards* state that management is responsible for developing policies, procedures, techniques, and mechanisms that enforce management's directives. Control activities include approvals, authorizations, verifications, reconciliations, performance review, and the creation and maintenance of related records that provide evidence of execution of these activities, as well as appropriate documentation.

SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, paragraph 95 states; the employer should recognize an expense and a liability for other post-employment benefits (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. Further, the long-term OPEB liability should be measured at the present value of future payments, which requires the employer to estimate the amount and timing of future payments, and to discount the future outflow over the period for which the payments are to be made.

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*Recommendations:* We recommend that the Coast Guard:

- a) Establish and document specific procedures and internal controls to provide review and oversight of its actuarial firm, to ensure that appropriate assumptions and accurate data, e.g., participant, medical cost, trend and experience, are used by the actuary to develop the estimate for post-employment actuarial liabilities, to include MRS and post employment travel benefits;
- b) Perform a periodic reconciliation between the medical expenditures recorded in the subsidiary ledger and those recorded in the CAS, and clearly identify reasons for variances in expenditures and UDOs. This reconciliation should be performed for all significant sources of medical actuarial data, including TriCare, and DoD Military Treatment Facilities (MTFs). In addition, this reconciliation should be reviewed by someone other than the preparer to ensure accuracy. The reviews / reconciliations should:
  - Determine whether personnel data and retroactive payroll transactions are negatively impacting other business processes such as payroll and/or budgeting, and take corrective action as appropriate; Institute an annual review of data from the active/reserve population submitted to the actuary to determine if member attributes are complete and accurate, and follow up on any errors in order to correct them;
  - Assess the impact of year-end retroactive payroll transactions on data populations provided to Coast Guard actuary;
  - Review of the spreadsheet used to record and monitor medical expenses, to identify and correct any technical errors;
  - Include an update to the current experience studies to provide more accurate trend information for Coast Guard, as recommended by Coast Guard’s actuary;
  - Review the annual headcounts provided by the PSC to the actuary, specifically by reconciling and resolving any discrepancies between payroll data to personnel data to ensure completeness and accuracy
- c) Perform an analysis of its policies, procedures, and systems to determine why certain IT system interfaces or query programs did not reliably process attribute data provided to the actuary and to identify key controls that were absent or ineffective; and
- d) Monitor medical care costs, including incurred but not reported costs. These procedures could include analysis of monthly medical cost payment trends, and related evaluations of trends to assess the accuracy and consistency of billings (between the military services), and for various treatment types (e.g., in-patient, out-patient). Such a trend analysis could assist the Coast Guard in budgeting medical payment costs for future periods. Verify that MTFs only bill for services provided to eligible Coast Guard participants and sponsors.

**I. Budgetary Accounting**

*Background:* Budgetary accounts are a category of general ledger accounts where transactions related to the receipt, obligation, and disbursement of appropriations and other authorities to obligate and spend agency resources are recorded. Combined ICE and DHS-ICE components have over 90 separate TAFS, each with separate budgetary accounts that must be maintained in accordance with

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OMB and Treasury guidance. The Coast Guard also 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. In total, the Coast Guard has over 80 separate Treasury fund symbols where budgetary authority is accounted for separately.

In fiscal year 2005, TSA migrated to the Coast Guard's financial systems, and Coast Guard became TSA's accounting services provider.

*Conditions:* We noted the following internal control weaknesses related to budgetary accounting, many of which were repeated from fiscal year 2004:

1. At ICE and DHS-ICE components:

- Weaknesses existed in controls that might have allowed ICE and DHS-ICE components to violate the *Antideficiency Act*, or prevented management from knowing if they were in violation. Circumstances existed during the year that indicated a strong possibility that ICE funds were insufficient to cover obligations. ICE management and the DHS OCFO commenced an internal review to determine the extent of unrecorded obligations at ICE because of ICE's ongoing budgetary accounting difficulties; however, the internal review was suspended prior to its completion. Identification of potential unrecorded obligations is contemplated as part of ICE's *Financial Action Plan* to be executed in fiscal year 2006. 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, 2005, and accordingly, we were unable to complete our procedures related to testing for ICE's compliance with the *Antideficiency Act*.
- Obligations for ICE and the DHS-ICE components were not always recorded in a timely manner. We noted many instances during the year when goods and services were procured before available funding was confirmed, and without an obligating document recorded in the system. We noted instances where invoices were held for payment due to for lack of funds. Because of the deterioration of the timeliness of recording obligations at ICE that were identified during the first half of fiscal year 2005, the Assistant Secretary for ICE intervened by issuing an instruction to all ICE program offices in April 2005 to record all known obligations. This was reiterated by an instruction in June 2005 from the Acting CFO, in preparation for the June 30, 2005, hard close.
- The listing of open obligations in ICE's core accounting system (FFMS) was not complete and accurate for ICE and all DHS-ICE components. Obligations were recorded or modified in FFMS without verifying that the obligation data keyed into FFMS agreed with supporting documentation. We noted instances where obligations were partially recorded and instances where the obligation was not recorded related to services that were provided over a period that crossed fiscal years. We also noted an instance where an obligation was not properly authorized before it was entered into FFMS.
- The transfer of accounting records and responsibilities from legacy agencies was not coordinated properly. Ending balances for budgetary accounts maintained by legacy agencies often did not equal the beginning balances shown in the DHS-ICE component's financial records, dating back to the inception of the Department in 2003. During fiscal year 2005, legacy agencies continued to approve and pay for prior year obligations, without providing timely information that ICE needed to update the relevant accounting records.

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- Certain Customs and Border Patrol (CBP) obligations, and the related disbursements, were retained in the accounting records of ICE upon the transfer of certain operations from ICE to CBP. However, the fiscal year 2005 transactions and remaining obligations were not reported to CBP timely, causing misstatements in the financial statements of both components.
  - 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 warrant authority. Further, ICE and the DHS-ICE components were unable to provide a complete and accurate listing of contracting officers with their approval thresholds.
  - Weaknesses existed in controls over the preparation, submission and reconciliation to the general ledger of the SF-132, and the SF-133. Information reported on the SF-133 did not agree with the accounting records and was not reconciled timely resulting in inaccuracies in the June 2005 financial statements for ICE and the DHS-ICE components.
2. At Coast Guard:
- Obligations related to post-employment permanent changes of station (PCS) were not recorded at the time orders were approved and issued.
  - The electronic validation and edit checks within the FPD, a feeder system to the CAS, were not fully utilized. Use of such a control is one method that would allow the Coast Guard to automatically flag and prevent the recording of commitments (a reservation of funds for future obligation) and obligations in excess of appropriations, apportionments, or allotments.
  - Obligations were recorded in FPD, but were not properly interfaced with the CAS, and were not supported by adequate documentation.
  - Weaknesses existed in system capabilities and controls over the recording of budgetary authority. The Coast Guard's financial systems were unable to record budget authority until it had been apportioned, which resulted in temporary understatements of budget authority for certain types of funding sources, e.g., transferred authority, that is not typically apportioned before receipt of the funds.
  - No automated system controls existed to preclude the processing of procurement transactions if the contracting officer's warrant authority had expired, and a manual check compensating control was not effective since listings of warranted contracting officers were outdated.
  - Commitments were not routinely monitored for aging, or released timely, so that funds could be committed and obligated elsewhere. As of September 30, 2005, Coast Guard had recorded unobligated commitments prior to fiscal year 2005 totaling \$57 million.
3. The CAS used by TSA's accounting service provider, did not have the functionality to record amounts deobligated from prior year obligations at the transaction level, in accordance with the SGL requirements.

*Cause/Effect:* Many of the budgetary accounting issues at ICE appeared to be systemic in nature, rooted in inadequate financial management processes, together with a lack of discipline in the operating offices to follow prescribed policies. In addition, the internal control system is weak, allowing financial errors to occur, such as unrecorded obligations, and go undetected by employees in the normal course of business. These conditions can also be attributed directly to weaknesses described in Comment A - *Financial Management and Oversight*. Several of the conditions at ICE

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### Appendix I – Material Weaknesses in Internal Control

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remain from difficulties with the transfer of the accounting operations of DHS-ICE components from legacy agencies to ICE in fiscal year 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 DHS-ICE components during the transfer of accounts to ICE.

Several of the Coast Guard's budgetary control weaknesses can be corrected by modifications or improvements to the financial accounting system, process improvements, and strengthened policies. The Coast Guard has deferred correction of these conditions until fiscal year 2006.

Weak controls in budgetary accounting, and associated contracting practices increase the risk that DHS and its components could violate the *Antideficiency 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 *Antideficiency 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 No. 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, and provides guidance on when it is proper to record obligations for financial reporting purposes. According to JFMIP's *Core Financial System Requirements* publication, 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 SGL guidance specifies the accounting entries related to budgetary transactions.

*Recommendations:* We recommend that:

1. ICE and DHS-ICE components:
  - a) Perform a root cause analysis of the financial management process, including relevant IT systems, to identify the reasons why obligations were not recorded accurately and timely during fiscal year 2005. If the review identifies violations of the *Antideficiency Act* that occurred during fiscal year 2005 or 2004, each instance of non-compliance should be reported in accordance with U.S.C. Title 31;
  - b) Redesign the procurement process, as necessary, and establish appropriate internal controls to ensure that all obligations are accurately entered into FFMS in a timely manner, in accordance with applicable accounting standards, e.g., OMB Circular No. A-11, including transactions conducted by legacy agencies for DHS-ICE component entities, and transactions made on behalf of other DHS components, e.g., CBP for transferred operations;
  - c) Verify and validate the completeness and accuracy of obligations currently recorded in FFMS, and that all obligations have been properly approved by a contracting officer with the appropriate authority to approve the transaction;
  - d) Improve policies and procedures to ensure that adequate documentation, including contracting officer approvals, is maintained to support all obligations; and
  - e) Improve policies and procedures related to preparation and reconciliation of the SF-132 and SF-133 with differences investigated and properly corrected.

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2. Coast Guard:
  - a) Implement procedures to ensure that obligations related to PCS are recorded at the time orders are approved and issued, and supporting documentation is maintained;
  - b) While no violations were noted, consider activating the electronic edit checks in FPD to the general ledger system to prevent incurring commitments and obligations in excess of appropriations and apportionments, and establish automated controls to prevent the processing of procurement transactions by contracting officers who do not have active warrant authority;
  - c) Revise controls and related policies and procedures to periodically review commitments, e.g., monitor aging, and determine the feasibility of modifying FPD to transmit all commitments, regardless of dollar amount, to the general ledger system, and to properly interface FPD with CAS;
  - d) Implement a system change to the general ledger accounting system posting logic, to properly record budget authority;
  - e) Develop and implement policies and procedures to ensure that the certification process is effective, and year-end obligations not recorded in CAS are validated, accurate, and supported by proper documentation; and
  - f) Develop and provide specific training related to any internal controls and related policy and procedure changes.
3. TSA, in coordination with its accounting services provider, should establish the necessary program logic in CAS to capture and report amounts deobligated from prior year obligations at the transaction level, in accordance with the SGL requirements.

**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 components also conduct business with each other, resulting in the same type of transactions and balances that must be eliminated against each other to produce accurate consolidated financial statements for DHS.

*Conditions:* During fiscal year 2005, including the fourth quarter, DHS did not timely or completely reconcile intragovernmental balances with other Federal entities, particularly the Department of Defense. Consequently, the DHS' *Material Difference/Status of Disposition Certification Report*, submitted to Treasury for September 30, 2005, showed material differences attributable to accounting/reporting errors in excess of \$1.6 billion. These conditions also impacted DHS' ability to accurately report transactions with Federal government trading partners in the consolidated financial statements, and in the RSI section of the financial statements, as required. The DHS OCFO did not perform reconciliations throughout the year of all intragovernmental balances. We noted that ICE, DHS-ICE components, and Coast Guard have not developed and adopted effective SOPs, or established systems to completely track, confirm, and reconcile intra-governmental balances and/or transactions with trading partners, in a timely manner, which contributed to the material differences.

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We did note a decrease in out-of-balance conditions from the prior year and during fiscal year 2005. However, DHS was still unable to produce accurate consolidated financial statements due, in part, to unreconciled eliminations between DHS components in a timely manner. 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 “on-top” adjustments, based primarily on estimates and analytical comparisons, to close the general ledger and prepare balanced consolidated financial statements.

*Cause/Effect:* Business process limitations at ICE, DHS-ICE components, and the Coast Guard prevented these components from tracking activity with government trading partners and thus, manual processes were established. Accounting data for DHS-ICE components did not include detailed supporting schedules of trading partner activity that would have facilitated the reconciliation process. The Coast Guard has not fully utilized its accounting system functionality to identify and track intragovernmental balances. 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 and the Government-wide financial statements.

*Criteria:* The *Treasury Financial Management Service Memorandum M-03-01*, dated October 4, 2002, provides guidance to Federal agencies for standardizing the processing and recording of intragovernmental activities. 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*, requires reporting agencies to reconcile and confirm intragovernmental activity and balances quarterly for specific reciprocal groupings. OMB Circular No. A-136 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 components 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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**K. 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.

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

*Conditions:* We noted the following internal control weaknesses related to DHS' 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.
  - Environmental liability estimates associated with lighthouses and light stations did not include future Phase II (soil testing) assessment or remediation costs and will not be completed until fiscal year 2006.
  - The total estimate for shore facilities was misstated due to ineffective procedures. We noted that the Coast Guard did not properly index the liability costs to current year dollars, nor did it properly include contingency factors for unknown conditions, resulting in a potential understatement of the shore facility 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 will not be completed until fiscal year 2006.
  - Segregation of duties in calculating and reviewing the vessels liability estimates did not exist.
  - Policies and procedures had not been developed to review shore facility project estimates that would provide reasonable coverage of the entire shore facility population.
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.
3. CBP had not determined the environmental liabilities to be recorded in the September 30, 2005, financial statements, until a review was performed in response to our audit inquiry. CBP's analysis resulted in an environmental liability of approximately \$43 million. We further noted that no single program existed to manage CBP's environmental liabilities, resulting in the necessity for an ad hoc process to be implemented at year-end. In addition, we noted a lack of communication throughout the organization, related to the requirements associated with

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environmental liabilities and weaknesses in documentation of data supporting the computation of liability for financial statement purposes.

*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 its financial statements. S&T and CBP did not have policies and procedures in place that required an annual review to identify a comprehensive list of sites that required environmental remediation and clean-up.

*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. In addition, SFFAS No. 6, paragraph 96, states that 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.

FASAB 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 including determining proper segregation of duties;
  - b) Develop controls to ensure identification of and recording of all environmental liabilities, such as, soil testing and remediation, lighthouses, small arms ranges, and vessels; and continue efforts to implement corrective action plans regarding small arms firing ranges (SAFR) and lighthouse/light station remediation projects; and
  - c) Develop and implement policies and procedures to apply indexing and contingencies to environmental estimates on a consistent basis, and to require the retention of supporting documentation for environmental estimates.
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

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liability for the cost of cleanup. S&T should also develop policies and procedures to routinely assess environmental liabilities.

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

**L. Custodial Revenue and Drawback**

*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 annual import duties, taxes, and fees 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 component with significant custodial responsibilities.

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

CBP employs a risk-based system of internal control over the collection of taxes, duties, and fees. By design, imports are subjected to various controls depending on a risk assessment associated with the importer, country of origin, merchandise being imported to the United States, and other factors. Low risk imports are subjected to fewer trade compliance controls, while high risk imports are subjected to increased control, e.g. inspection, review of import documentation, etc. To measure the effectiveness of this risk-based control approach, CBP uses a technique known as Compliance Measurement Program (CMP), which is essentially a control self-assessment. The CMP is also used to compute the “revenue gap”, as described by SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*, and disclosed in the CBP’s PAR in compliance with OMB Circular No. A-136.

Bonded Warehouses (BW) are facilities under the joint supervision of CBP and the Bonded Warehouse Proprietor used to store merchandise that has not made entry into the United States commerce. Foreign Trade Zones (FTZ) are secured areas under CBP supervision that are considered outside of the CBP territory, upon activation. Authority for establishing FTZs is granted by the U.S. Department of Commerce’s Foreign Trade Zones Board, under the *Foreign Trade*

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*Zones Act of 1934*, as amended (19 U.S.C. 81a-81u). Foreign and domestic merchandise may be admitted into zones for operations not otherwise prohibited by law, including storage, exhibition, assembly, manufacturing, and processing.

*Conditions:* We noted the following internal control weaknesses at CBP:

Related to drawback:

- 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.

Related to the entry process – collection of taxes, duties and fees, and CMP:

- Policies and procedures that describe how to perform a CMP exam, the role of the CM coordinator, and documentation of findings, etc. were outdated and not well documented or communicated. We noted that performance of the CMP has been inconsistent in various ports throughout the United States. For example we noted that the extent of physical inspection of merchandise varied depending upon the port and inspector performing the inspection.
- CBP management identified other weaknesses in the documentation and accumulation of CMP sample data that could mitigate the effectiveness of the program as a quality control measurement tool, and the accuracy of the revenue gap disclosed in the CBP PAR. For example, we noted that CMP sample data was not reviewed for errors before it was used by a statistician to compute the revenue gap, and CBP identified a high error rate in the quality of other, non-financial CMP generated data.
- The CMP sample size used during fiscal year 2005 was lower than in previous years, and consequently caused a high standard deviation of potential error in the statistical computation of the revenue gap.

Related to BW and FTZ:

- CBP lacked official guidance and proper training to address the monitoring of BWs and FTZs. For example, we identified incomplete risk assessments and spot checks of BWs and FTZs.
- CBP has not implemented a CMP to measure the revenue gap and effectiveness of controls over trade compliance at FTZs and BWs, similar to the entry process described above.

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*Cause/Effect:* CBP has been challenged to balance its commitment of limited resources to two important mission objectives – trade compliance, including the collection of taxes, duties and fees owed to the Federal government, and securing the U.S. borders from potential terrorist entry. While these mission objectives do overlap somewhat, there are differences in how resources are deployed. During fiscal year 2005, CBP reduced its sample size for its CMP by a factor of 50 percent, to devote more resources to border security. Further, CMP policies and procedures have not gone through a significant review and update in several years. Turnover and reassignment of personnel have caused the CMP knowledge base to go stale in some ports. For drawback, much of the process is manual until planned IT system functionality improvements are made, placing an added burden on limited resources. Policies and procedures have not been developed or implemented to reliably and accurately review and track the BWs and FTZs. Without an effective process to review the compliance of CBW and FTZ, CBP cannot determine the loss of revenue associated with these facilities, and it is possible that some of the facilities were not accounted for and that others were counted twice.

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

Related to drawback:

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

Related to entry and CMP:

- c) Update policies and procedures to fully describe how to perform a CMP exam, define the roles and responsibilities of the CM coordinator, and to describe how to document test results to improve the quality of CMP data;

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- d) Provide training to CM coordinators, CBP officers and import specialists on how to fully achieve the objective of the CMP; and
- e) Develop and implement additional procedures that will improve the precision of the revenue gap calculation, including the statistical results.

Related to FTZ and BW:

- f) Finalize and issue CBP policies and provide appropriate training regarding compliance reviews of FTZs and BWs. This policy should include a standard national checklist to help CBP officers perform thorough reviews and measure compliance rates and to document the reviews consistently. In addition, this policy should include specific corrective action plans, based on the inspection results; and
- g) Consider the cost/effectiveness of implementing a CMP over FTZs and BWs to assess the risk of revenue loss and violations of trade regulations by importers.

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**Appendix III – Compliance and Other Matters**

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**(Findings A – J and K – L are presented in Appendices I and II, respectively)**

**M. Federal Managers' Financial Integrity Act of 1982**

OMB Circular No. A-123 requires agencies and Federal managers to (1) develop and implement management controls; (2) assess the adequacy of management controls; (3) identify needed improvements; (4) take corresponding corrective action; and (5) report annually on management controls (commonly known as management's FMFIA report). During fiscal year 2005, DHS OCFO significantly enhanced its FMFIA assessment policies and procedures to be conducted by the components, in part to prepare for an audit of internal control over financial reporting in fiscal year 2006, pursuant to the *DHS Financial Accountability Act of 2004*. The OCFO required the components to implement certain processes and undergo a self evaluation of some entity level controls.

While also we noted a considerable improvement in DHS' FMFIA processes, some components still 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 components fully implement the FMFIA process, as prescribed by the OCFO, to ensure compliance with the FMFIA in fiscal year 2006. We also recommend that the OCFO consider additional training for the components, to ensure a thorough understanding of requirements.

**N. Federal Financial Management Improvement Act of 1996**

Passage of the *DHS Financial Accountability Act of 2004* made DHS subject to the FFMIA, in fiscal year 2005. In previous fiscal years – 2003 and 2004 – DHS was not subject to FFMIA. Section 803(a) of FFMIA, requires that agency Federal financial management systems comply with (1) Federal accounting standards, (2) Federal system requirements, and (3) the United States Standard General Ledger at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability. We noted that DHS and each significant component – CBP, ICE and DHS-ICE components, EPR, SLGCP, TSA and Coast Guard did not fully comply with at least one of the requirements of FFMIA. The reasons for non-compliance are reported in Appendices I and II.

*Recommendations:* We recommend that DHS improve its processes to ensure compliance with the FFMIA in fiscal year 2006.

**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 C– *Financial Systems Security*.

## Independent Auditors' Report

### Appendix III – Compliance and Other Matters

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*Recommendations:* We recommend that DHS follow the recommendations provided in Appendix I, Comment C and fully implement the requirements of FISMA in fiscal year 2006.

#### **P. Single Audit Act Amendments of 1996, and Laws and Regulations Supporting OMB Circular No. A-50, Audit Follow-up, as revised,**

As grant-making agencies, EPR, SLGCP, and TSA are required to comply with certain provisions of OMB Circular No. A-133 and OMB Circular No. A-50, as revised. These circulars require agencies awarding grants to ensure they receive grantee reports timely and to follow-up on grantee single audit findings.

Additional, OMB Circular No. A-50, as revised, provides policies and procedures for use by executive agencies when considering reports issued by Inspectors General, and other executive branch audit organizations, the GAO, and non-Federal auditors, where follow up is necessary. Corrective action taken by management on findings and recommendations is essential to improve the effectiveness and efficiency of government operations.

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 Circular Nos. 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 always entirely within the control of EPR, SLGCP, and TSA.

DHS and its components did not fully develop corrective action plans to address all material weaknesses and reportable conditions identified by previous financial statement audits, and in two cases, management did not provide a response to fiscal year 2004 audit findings, as required by OMB Circular No. A-50, as revised. We also noted that some corrective action plans lack sufficient detail, such as clearly defined roles and responsibilities, actions to be taken, time-table for completion of actions, and documented supervisory review and approval of completed actions.

*Recommendations:* We recommend that:

1. DHS management develop and implement department-wide policies and procedures to ensure compliance with OMB Circular Nos. A-133 and A-50, including the identification of which components must comply. Until policy guidance is received from DHS management, EPR, SLGCP, and TSA should perform the following in fiscal year 2006:
  - a) Develop and implement a tracking system to identify each grantee for which an OMB Circular No. A-133 single audit is required, and the date the audit report is due;
  - b) Use the tracking system to ensure audit and performance 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. DHS develop policies and procedures, including the development of a process to ensure that corrective action plans addressing all DHS audit findings are developed and implemented, together with appropriate supervisory review.

**Independent Auditors' Report**  
**Appendix III – Compliance and Other Matters**

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**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, *Implementation Guide for the Improper Payments Information Act of 2002*, which among other matters provided a recommended process to meet the disclosure requirements. We noted that DHS did not comply with the Act, as follows:

DHS did not:

- Institute a systematic method of reviewing all programs and identifying those it believed were susceptible to significant erroneous payments; and
- Perform testwork to evaluate improper payments for all material programs. Testing was only performed over the TAFS with the largest disbursements for each component or the largest TAFS maintained by an internal DHS accounting service provider.

*Recommendation:* We recommend that DHS follow the guidance provided in OMB M-03-13 in fiscal year 2006, including completing the necessary susceptibility assessments, performing testwork over all material programs, and instituting sampling techniques to allow for statistical projection of the results.

**R. *DHS Financial Accountability Act of 2004***

Section 3 of Public Law 108-330, *DHS Financial Accountability Act of 2004*, states that the President of the United States shall appoint a Chief Financial Officer of DHS not later than 180 days after the date of the enactment of this Act signed in October 2004, to be confirmed by the U.S. Senate. To date, a CFO for DHS has not been nominated or Senate confirmed. Currently DHS is operating with an Acting CFO, while no waiver or amendment to this law has been obtained by DHS management. The *DHS Financial Accountability Act of 2004* also made DHS subject to the *Chief Financial Officers Act of 1990*, as amended, which requires DHS to submit to the Congress and OMB audited financial statements annually. DHS engaged an independent auditor to audit the September 30, 2005, consolidated balance sheet only.

*Recommendation:* We recommend that DHS complete the interviewing process and formally nominate an applicant to fill the CFO position in a timely manner. We also recommend that DHS and its components continue to implement corrective action plans in order to remediate the fiscal year 2005 material weaknesses and reportable conditions in order to obtain an opinion covering all of its consolidated financial statements in the future.

**S. *Government Performance and Results Act of 1993***

The *Government Performance and Results Act* requires each agency to prepare performance plans that include a description of the operational processes, skills and technology, and the resources required to meet the goals, and a description of the means used to verify and validate the measured results. In addition, the PAR should include performance indicators established in the annual

**Independent Auditors' Report**  
**Appendix III – Compliance and Other Matters**

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performance plan, the actual performance achieved compared with the prior year goals, and an evaluation of the current year performance plan with respect to success in achieving the performance goals. The fiscal year 2006 DHS *Annual Performance Plan* did not include details related to requisite resources to meet DHS goals or a description of the means used to verify and validate performance results. Also, DHS did not consistently present performance measures in the PAR as written in the annual performance plans, did not provide explanations of performance results, and did not have supporting documentation substantiating the changes in performance measure goals between the annual performance plan and the PAR.

*Recommendation:* We recommend that DHS develop policies and procedures to ensure full compliance with the *Government Performance Results Act*.

**Independent Auditors' Report  
Appendix IV – Status of Prior Year Findings**

Summary of Conditions As Reported in 2004 DHS Performance and Accountability Report	Fiscal Year 2005 Status/ <u>Disposition</u>
<b>Material Weaknesses:</b>	
<p><b>A. Financial Management Structure</b> Office of the Chief Financial Officer (OCFO) has not fully established processes that bridge the gap between where DHS' consolidated reporting responsibilities lie (at the OCFO) and where most accounting resources and detailed knowledge resides; hired or contracted sufficient qualified personnel to properly perform the financial reporting function; provided the DHS bureaus sufficient management oversight and timely policy guidance; and established sufficient internal controls over financial reporting.</p>	<p><b>Partially Repeated as Material Weakness</b> (Comment A)</p>
<p><b>B. Financial Management and Oversight at Immigration and Customs Enforcement</b> ICE did not have a well-designed plan for the transition of accounting operations of major DHS directorates and components to its accounting systems, resulting in material errors, irregularities, and abnormal balances in the DHS consolidated financial statements; a process to establish and maintain more than 30 important shared services agreements with trading partners; a process for identifying and fixing deficiencies in its accounting and financial reporting process, including internal control weaknesses, human capital needs, and information technology needs. Its financial systems, processes, and control activities were inadequate for providing accounting services for itself and five other major DHS operating units; sufficient leadership and guidance, from both the OCFO and within its own management ranks. ICE fell seriously behind in performance of 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 fiscal year 2004, correctly applying Federal accounting standards, and implementing internal controls that comply with GAO <i>Standards</i>.</p>	<p><b>Repeated as Material Weakness</b> (Comment A)</p>
<p><b>C. Financial Reporting in the Office of the Chief Financial Officer and DHS Components</b> 1. The OCFO did not adhere to the schedule to meet the accelerating reporting deadlines; prepare a balanced consolidated financial statement until November 2004; prepare accurate periodic consolidated financial statements; implement sufficient processes and monitoring controls to ensure consolidated financial information was received timely and was accurate from DHS components; provide adequate guidance to DHS components; and implement procedures and controls over the FMFIA reporting process.</p>	<p><b>Partially Repeated as Material Weakness</b> (Comments A &amp; B)</p>

**Independent Auditors' Report  
Appendix IV – Status of Prior Year Findings**

**Summary of Conditions  
As Reported in 2004 DHS Performance and Accountability Report**

**Fiscal Year 2005  
Status/Disposition**

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; year-end closing entries did not consistently include sufficient supporting documentation or internal controls, such as management review; the accuracy of financial information was dependent on a few knowledgeable personnel instead of well documented policies and procedures; and had weaknesses in financial management oversight.
3. ICE, EPR, and SLGCP 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.
4. Coast Guard, SLGCP, and ICE did not have effective financial information systems or sufficiently documented processes to accumulate and present cost data by strategic goal as required by SFFAS No. 4.
5. EPR monthly TIER transmissions did not accurately and completely reflect the financial transactions of the Strategic National Stockpile.
6. SLGCP was not actively involved in the financial reporting process of its accounting services provider, and did not provide adequate oversight.

**D. Financial Systems Functionality and Technology**  
OCFO 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.

**Repeated as  
Material Weakness  
(Comment C)**

**E. Fund Balance with Treasury**

1. ICE did not perform timely reconciliation procedures for FBWT, and lack SOPs on FBWT reconciliation procedures.
2. Guard did not perform timely reconciliation procedures for FBWT, and lack SOPs on FBWT reconciliation procedures.

**Repeated as  
Material Weakness  
(Comment D)**

IV.2

**Independent Auditors' Report  
Appendix IV – Status of Prior Year Findings**

<b>Summary of Conditions As Reported in 2004 DHS Performance and Accountability Report</b>		<b>Fiscal Year 2005 Status/ Disposition</b>
<b>F. Property, Plant, and Equipment</b>	<ol style="list-style-type: none"> <li>1. Coast Guard has not implemented appropriate controls and related processes to properly, accurately and timely record PP&amp;E additions, transfers from other agencies, and disposals in its fixed assets system; maintained cost documentation for some PP&amp;E; implemented an adequate asset identification and tagging system; developed a physical inventory processes; accounted properly for depreciation of improvements made for some PP&amp;E; established policies related to the useful lives of certain vessels; properly classified repairable items as PP&amp;E and established procedures to identify and evaluate lease agreements.</li> <li>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.</li> </ol>	<b>Repeated as Material Weakness (Comment E)</b>
<b>G. Operating Materials and Supplies, and Seized Property</b>	<ol style="list-style-type: none"> <li>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; he policies were not updated to ensure correct financial reporting; and the weighted average pricing methodology used to value OM&amp;S was not appropriately supported.</li> <li>2. Secret Service counterfeit currency records did not accurately reflect the activity for the year.</li> </ol>	<b>Partially Repeated as Material Weakness (Comment F)</b>
<b>H. Undelivered Orders, Accounts and Grants Payable, and Disbursements</b>	<ol style="list-style-type: none"> <li>1. ICE did not establish sufficient controls to properly account for disbursements made by legacy agencies for DHS-ICE components; prevent duplicate payments for vendors related to prior year obligations or to prevent anti-deficient situations in certain Treasury accounts; did not have sufficient controls to ensure that open obligations were properly liquidated when corresponding accounts payable were recorded; and did not have policies related to verification and validation of obligations. The methods used by ICE to estimate accounts payable itself and other DHS-ICE components was not based on historical disbursements or other information unique to those programs.</li> </ol>	<b>Repeated as Material Weakness (Comment G)</b>

**Independent Auditors' Report  
Appendix IV – Status of Prior Year Findings**

<b>Summary of Conditions As Reported in 2004 DHS Performance and Accountability Report</b>		<b>Fiscal Year 2005 Status/ Disposition</b>
<p>2. Coast Guard did not have adequate controls and systems to periodically review and validate UDOS, and record obligations and advances timely and accurately; did not record contract awards timely; did not consistently follow policies and procedures related to procurement and requisitions; did not address possible programming logic in IT systems timely; and the verification process of accounts payable included erroneous data.</p> <p>3. SLGCP did not perform sufficient monitoring over the legacy agency's activities performed on its behalf related to grant accruals.</p> <p>4. TSA lacked policies and procedures to monitor compliance with OMB Circular A-133 and did not maintain adequate supporting documentation for disbursed grants.</p>		
<p><b>I. Budgetary Accounting</b></p> <p>1. ICE has weaknesses in internal controls that may have allowed it to violate the Antideficiency Act; the transfer of accounting records and responsibilities from prior accounting services providers was not coordinated properly; obligations were not recorded properly; disbursements and resulting adjustments to obligation balances related to CBP were not recorded timely; contracting officer approvals were clearly documented on obligating documents; controls were weak over the preparation and submission of the SF-132 and SF-133 process.</p> <p>2. Coast Guard, electronic edit checks over budget authority and commitments were not fully employed; weaknesses existed in controls over recording of budgetary authority, commitments, obligations, and related disbursements and recissions; weakness existed in controls over the preparation, submission and document retention of the SF-132 and SF-133; contracting officers with expired authority continued to approve obligations; commitments were not routinely monitored</p> <p>3. EPR's method of accounting for investments resulted in an audit adjustment to correct the misstatement in the statement of budgetary resources.</p>	<p><b>Partially Repeated as Material Weakness (Comment I)</b></p>	
<p><b>J. Intragovernmental and Intradepartmental Balances</b></p> <p>Coast Guard, EPR, CBP, and CIS/ICE do not have effective SOPs to track, confirm, or reconcile intragovernmental balances and transactions with trading partners; and DHS OCFO does not have an adequate process for reconciling differences with other Federal government trading partners.</p>	<p><b>Repeated as Material Weakness (Comment J)</b></p>	

**Independent Auditors' Report  
Appendix IV – Status of Prior Year Findings**

Summary of Conditions As Reported in 2004 DHS Performance and Accountability Report	Fiscal Year 2005 Status/ <u>Disposition</u>
<b>Other Reportable Conditions:</b>	
<p><b>K. Deferred Revenue on Immigration and Naturalization Applications</b> CIS lacks SOPs for identifying the accuracy and reliability of application status data and fees correction with immigration applications were not always deposited in accordance with Treasury guidelines.</p>	Closed
<p><b>L. Environmental Liabilities</b> 1. Coast Guard have not developed consistent written policies and procedures for the identification, evaluation, and estimation of potential environmental remediation of sites; liability estimates for lighthouses did not include soil testing; did not properly index costs; lacked management review of liability estimates. 2. S&amp;T had not developed policies and procedures to determine if an environmental liability exists at PIADC, and if so to accurately estimate the liability for financial statement reporting purposes</p>	Repeated as Reportable Condition (Comment K)
<p><b>M. Custodial Activity Performed by Customs and Border Protection</b> CBP did not have a reliable process of monitoring the movement of in-bond shipments, adequate written SOPs, and consistent performance of a compliance measurement program to assess the risk and compute an estimate of underpayment of duties, taxes, and fees.</p>	Repeated as Reportable Condition (Comment L)
<b>Compliance and Other Matters:</b>	
<p><b>N. Federal Managers' Financial Integrity Act of 1982</b> DHS management's FMFIA report did not contain corrective action plans for all material weaknesses identified in the PAR. In addition, DHS and its components have not established effective systems, processes, policies and procedures to evaluate and report on FMFIA compliance.</p>	Repeated as Reportable Condition (Comment M)

Independent Auditors' Report  
 Appendix IV – Status of Prior Year Findings

Summary of Conditions As Reported in 2004 DHS Performance and Accountability Report	Fiscal Year 2005 Status/Disposition
<p><b>O. Federal Information Security Management Act (Electronic Government Act of 2002)</b>                      Instances on non-compliance with the FISMA were noted.</p>	<p><b>Repeated as Reportable Condition</b>                      (Comment O)</p>
<p><b>P. Single Audit Act Amendments of 1996, and Laws and Regulations Supporting OMB Circular No. A-50, Audit Follow-up, as revised</b>                      EPR, SLGCP, and TSA did not have procedures to monitor grantees and their audit findings.</p>	<p><b>Partially Repeated as Reportable Condition</b>                      (Comment P)</p>
<p><b>Q. Improper Payments Information Act of 2002</b>                      DHS did not properly define programs and activities, institute a systematic method of reviewing all programs and identifying those at risk of significant erroneous payments, and properly sample or compute the estimated dollar amount of improper payments.</p>	<p><b>Repeated as Reportable Condition</b>                      (Comment Q)</p>

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



Homeland  
Security

November 15, 2005

**MEMORANDUM FOR:** Richard L. Skinner,  
Inspector General

**FROM:** Andrew B. Maner   
Chief Financial Officer

**SUBJECT:** Management's Response to the Independent Auditor's Report

Thank you for the opportunity to respond to the Independent Auditor's Report. Overall, the Report was well balanced and the Department concurs with the Independent Auditor's recommendations. Detailed corrective action plans for material weaknesses, reportable conditions, and non-compliance with laws and regulations are provided in the Management Discussion and Analysis section of the PAR, however, we would like to take this opportunity to highlight significant actions currently underway to address the material weaknesses reported. Over the next year we will:

- Execute the Secretary's Second Stage Review agenda item for improving DHS financial management.
- Build upon our progress in implementing the *Department of Homeland Security Financial Accountability Act*. Management's assessment for the Act's annual assertion requirement on internal control over financial reporting will be the framework to ensure that all financial management processes across the Department are designed and implemented with strong internal controls.
- Implement a standardized financial reporting process, including formal policies and procedures that require Components to prepare a comprehensive financial reporting package that will result in complete and reliable financial reporting.
- Issue a formal Corrective Action Planning Management Directive and Process Guide to improve our corrective action plans and ensure they demonstrate results.
- Continue to invest in and expand accounting staffs with the right skill sets to improve internal controls over financial reporting.
- Carry on with our efforts to implement a Department-wide IT security program in accordance with OMB and NIST guidance.

Since our inception in March 2003, the Department has demonstrated resolve in subjecting our financial statements to an independent audit. In fiscal year 2006 we will continue to demonstrate our commitment to success in our long-term transformational efforts. Finally, we wanted to reaffirm our appreciation of the efforts of your office and the independent auditors. We are proud of the professional and cooperative working relationships amongst our staffs. Ultimately, we share the common goal of *Organizational Excellence* and we look forward to continuing our joint efforts in developing a culture of integrity, accountability, and excellence in all we do. Once again, thank you for a well balanced report.

## Introduction

The principal consolidated financial statements included in this report are prepared pursuant to the requirements of the Accountability of Tax Dollars Act of 2002 and the Department of Homeland Security (DHS) Financial Accountability Act of 2004, to meet the requirements of the Chief Financial Officers Act of 1990. Other requirements include the Government Management Reform Act of 1994, and the Office of Management and Budget's (OMB) Circular No. A-136. The responsibility for the integrity of the financial information included in these statements rests with the management of DHS. An independent certified public accounting firm, selected by the Department's Inspector General, was engaged to perform the audit of the consolidated balance sheet. The independent auditors' report accompanies the principal consolidated statements. These financial statements include the following:

- The **Consolidated Balance Sheet** presents as of September 30, 2005 and 2004, those resources owned or managed by DHS which are available for future economic benefits (assets); amounts owed by DHS that will require payments from those resources or future resources (liabilities) and residual amounts retained by DHS, comprising the difference (net position).
- The **Consolidated Statement of Net Cost** presents the net cost of DHS operations for the years ended September 30, 2005 and 2004. DHS net cost of operations includes the gross costs incurred by DHS less any exchange revenue earned from DHS activities.
- The **Consolidated Statement of Changes in Net Position** presents the change in DHS' net position resulting from the net cost of DHS operations, budgetary financing sources and other financing sources for the years ended September 30, 2005 and 2004.
- The **Combined Statement of Budgetary Resources** presents the budgetary resources available to DHS during fiscal years 2005 and 2004, the status of these resources at September 30, 2005 and 2004, and the outlay of budgetary resources for the years ended September 30, 2005 and 2004.
- The **Consolidated Statement of Financing** presents the reconciliation of the net cost of operations with the budgetary resources for the years ended September 30, 2005 and 2004.
- The **Statement of Custodial Activity** presents the disposition of custodial revenue collected and disbursed by DHS on behalf of other recipient entities for the years ended September 30, 2005 and 2004.

## LIMITATIONS OF FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of Title 31, United States Code, Section 3515 (b) relating to financial statements of agencies. While the statements have been prepared from the books and records of the agency in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to the

financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

**Department of Homeland Security  
Consolidated Balance Sheet  
As of September 30, 2005 and 2004  
(In Millions)**

	<u>2005</u> (Unaudited)	<u>2004</u> (Unaudited)
<b>ASSETS (Notes 2 and 22)</b>		
<b>Intragovernmental</b>		
Fund Balance with Treasury (Notes 2 and 3)	\$97,004	\$33,436
Investments, Net (Note 4)	738	1,625
Advances and Prepayments (Note 6)	2,937	2,886
Other (Note 12)	361	481
<b>Total Intragovernmental</b>	<b>101,040</b>	<b>38,428</b>
Accounts Receivable, Net (Note 5)	532	463
Tax, Duties, and Trade Receivables, Net (Notes 2 and 7)	1,400	1,273
Operating Materials, Supplies, and Inventory, Net (Note 9)	506	496
General Property, Plant, and Equipment, Net (Note 11)	10,470	9,746
Other (Note 12)	558	400
<b>Total Assets</b>	<b>\$114,506</b>	<b>\$50,806</b>
<b>LIABILITIES (Note 13)</b>		
<b>Intragovernmental</b>		
Due to the Treasury General Fund (Note 14)	\$1,434	\$1,257
Accounts Payable	870	911
Other (Note 19)	854	563
<b>Total Intragovernmental</b>	<b>3,158</b>	<b>2,731</b>
Accounts Payable	3,329	2,791
Claims and Claims Settlement Liabilities (Note 15)	23,433	1,417
Deferred Revenue and Advances from others (Note 16)	2,014	2,020
Accrued Payroll and Benefits (Note 17)	2,845	2,692
Military Service and Other Retirement Benefits (Note 18)	29,021	26,502
Other (Note 19)	5,945	4,166
<b>Total Liabilities</b>	<b>69,745</b>	<b>42,319</b>
Commitments and contingencies (Notes 20 and 21)		
<b>Net Position</b>		
Unexpended Appropriations	87,166	25,504
Cumulative Results of Operations	(42,405)	(17,017)
<b>Total Net Position</b>	<b>\$44,761</b>	<b>\$8,487</b>
<b>Total Liabilities and Net Position (Note 22)</b>	<b>\$114,506</b>	<b>\$50,806</b>

The accompanying notes are an integral part of these statements.

**Department of Homeland Security  
Consolidated Statement of Net Cost  
For the Years Ended September 30, 2005 and 2004  
(In Millions)**

<b>Directorates and Other Components (Note 23)</b>	<b><u>2005</u></b>	<b><u>2004</u></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Border and Transportation Security</b>		
Gross Cost	\$17,914	\$16,646
Less Earned Revenue	(3,547)	(2,905)
<b>Net Cost</b>	<b>14,367</b>	<b>13,741</b>
<b>Emergency Preparedness and Response</b>		
Gross Cost	39,805	7,819
Less Earned Revenue	(2,178)	(2,020)
Net Cost of Continuing Operations	37,627	5,799
Cost of Transferred Operations (Note 29)	-	98
<b>Net Cost</b>	<b>37,627</b>	<b>5,897</b>
<b>Information Analysis and Infrastructure Protection</b>		
Gross Cost	652	497
Less Earned Revenue	-	-
<b>Net Cost</b>	<b>652</b>	<b>497</b>
<b>Science and Technology</b>		
Gross Cost	743	755
Less Earned Revenue	(12)	-
<b>Net Cost</b>	<b>731</b>	<b>755</b>
<b>United States Coast Guard</b>		
Gross Cost	9,589	8,317
Less Earned Revenue	(220)	(157)
<b>Net Cost</b>	<b>9,369</b>	<b>8,160</b>
<b>United States Secret Service</b>		
Gross Cost	1,505	1,386
Less Earned Revenue	(22)	(18)
<b>Net Cost</b>	<b>1,483</b>	<b>1,368</b>
<b>United States Citizenship and Immigration Services</b>		
Gross Cost	1,291	1,758
Less Earned Revenue	(1,622)	(1,310)
<b>Net Cost</b>	<b>(331)</b>	<b>448</b>
<b>Departmental Operations and Other</b>		
Gross Cost	2,519	2,270
Less Earned Revenue	(12)	(8)
<b>Net Cost</b>	<b>2,507</b>	<b>2,262</b>
<b>Net Cost of Operations (Note 23)</b>	<b>\$66,405</b>	<b>\$33,128</b>

The accompanying notes are an integral part of these statements.

**Department of Homeland Security**  
**Consolidated Statement of Changes in Net Position**  
**For the Years Ended September 30, 2005 and 2004**  
(In Millions)

	<u>2005</u>		<u>2004</u>	
	Cumulative Results of Operations (Unaudited)	Unexpended Appropriations (Unaudited)	Cumulative Results of Operations (Unaudited)	
			Unexpended Appropriations (Unaudited)	
<b>BEGINNING BALANCES</b>	\$(17,017)	\$25,504	\$(15,680)	\$23,560
<b>Budgetary Financing Sources:</b>				
Prior Period Adjustments:				
Correction of Errors (Note 30)	(127)	163	-	-
<b>Beginning Balance, as Adjusted</b>	<b>(17,144)</b>	<b>25,667</b>	<b>(15,680)</b>	<b>23,560</b>
<b>Budgetary Financing Sources:</b>				
Appropriations Received (Note 24)	-	101,251	-	33,410
Appropriations Transferred in/out	-	158	-	(398)
Rescissions and Other Adjustments (Notes 3 and 24)	-	(1,876)	-	(2,398)
Appropriations Used	38,034	(38,034)	28,670	(28,670)
Non-exchange Revenue	2,315	-	2,308	-
Donations and Forfeitures of Cash/Equivalents	3	-	3	-
Transfers in/out without Reimbursement	265	-	672	-
Other	(143)	-	73	-
<b>Other Financing Sources:</b>				
Donations and Forfeitures of Property	8	-	8	-
Transfers in/out Without Reimbursement	11	-	(685)	-
Imputed Financing from Costs Absorbed by Others	651	-	742	-
<b>Total Financing Sources</b>	<b>41,144</b>	<b>61,499</b>	<b>31,791</b>	<b>1,944</b>
<b>Net Cost of Operations</b>	<b>(66,405)</b>	<b>-</b>	<b>(33,128)</b>	<b>-</b>
<b>Net Change</b>	<b>(25,261)</b>	<b>61,499</b>	<b>(1,337)</b>	<b>1,944</b>
<b>ENDING BALANCES</b>	<b>\$(42,405)</b>	<b>\$87,166</b>	<b>\$(17,017)</b>	<b>\$25,504</b>

The accompanying notes are an integral part of these statements.

**Department of Homeland Security  
Combined Statement of Budgetary Resources (page 1 of 2)  
For the Years Ended September 30, 2005 and 2004  
(In Millions)**

<b>BUDGETARY RESOURCES</b>	<b><u>2005</u></b> <b>(Unaudited)</b>	<b><u>2004</u></b> <b>(Unaudited)</b> <b>(Restated)</b>
Budget Authority:		
Appropriations Received	\$106,691	\$38,303
Borrowing Authority	2,026	26
Net Transfers	326	757
Unobligated Balance:		
Beginning of Period (Notes 24 and 30)	8,392	8,659
Net Transfers	11	41
Spending Authority from Offsetting Collections:		
Earned:		
Collected	7,716	6,282
Receivable from Federal Sources	(142)	9
Change in Unfilled Customer Orders:		
Advance Received	571	87
Without Advance From Federal Sources	569	258
Transfers from Trust Funds	50	55
Subtotal	<u>8,764</u>	<u>6,691</u>
Recoveries of Prior Year Obligations	1,431	1,982
Temporarily Not Available Pursuant to Public Law	-	(17)
Permanently Not Available (Note 24)	<u>(1,961)</u>	<u>(2,563)</u>
<b>TOTAL BUDGETARY RESOURCES</b>	<b><u>\$125,680</u></b>	<b><u>\$53,879</u></b>
 <b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred:		
Direct (Note 24)	\$64,227	\$42,607
Reimbursable (Note 24)	<u>4,394</u>	<u>2,880</u>
Subtotal	68,621	45,487
Unobligated Balance:		
Apportioned		
Balance, Currently Available	51,837	6,712
Exempt from Apportionment	45	42
Unobligated Balance Not Available	<u>5,177</u>	<u>1,638</u>
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b><u>\$125,680</u></b>	<b><u>\$53,879</u></b>

The accompanying notes are an integral part of these statements.

**Department of Homeland Security**  
**Combined Statement of Budgetary Resources (page 2 of 2)**  
**For the Years Ended September 30, 2005 and 2004**  
(In Millions)

<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>	<b><u>2005</u></b> <b>(Unaudited)</b>	<b><u>2004</u></b> <b>(Unaudited)</b> <b>(Restated)</b>
Obligated Balance, Net, Beginning of Period (Notes 24 and 30)	24,781	19,689
Obligated Balance Transferred, Net	89	(559)
Obligated Balance, Net, End of Period:		
Accounts Receivable	(295)	(437)
Unfilled Customer Orders from Federal Sources	(1,550)	(981)
Undelivered Orders	34,614	21,354
Accounts Payable	5,674	4,845
Outlays:		
Disbursements	53,175	37,601
Collections	(8,336)	(6,424)
Subtotal	<u>44,839</u>	<u>31,177</u>
Less: Offsetting Receipts	(4,152)	(3,779)
<b>NET OUTLAYS</b>	<b><u><u>\$40,687</u></u></b>	<b><u><u>\$27,398</u></u></b>

The accompanying notes are an integral part of these statements.

**Department of Homeland Security  
Consolidated Statement of Financing (page 1 of 2)  
For the Years Ended September 30, 2005 and 2004  
(In Millions)**

	<u>2005</u> (Unaudited)	<u>2004</u> (Unaudited) (Restated)
<b>Resources Used to Finance Activities:</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$68,621	\$45,487
Less: Spending Authority from Offsetting Collections and Recoveries	(10,195)	(8,673)
Obligations Net of Offsetting Collections and Recoveries	<u>58,426</u>	<u>36,814</u>
Less: Offsetting Receipts	(4,152)	(3,779)
Net Obligations	<u>54,274</u>	<u>33,035</u>
<b>Other Resources</b>		
Donations and Forfeiture of Property	8	8
Transfers in(out) Without Reimbursement	11	(685)
Imputed Financing from Costs Absorbed by Others	651	742
Net Other Resources Used to Finance Activities	<u>670</u>	<u>65</u>
<b>Total Resources Used to Finance Activities</b>	<b>54,944</b>	<b>33,100</b>
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	12,866	5,029
Resources that Fund Expenses Recognized in Prior Periods	26	578
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations:		
Credit program Collections that increase Liabilities for Loan Guarantees or Allowances for Subsidy	(8)	(1,182)
Other	(344)	(816)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	1,860	1,575
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	(499)	(471)
<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	<u>14,898</u>	<u>4,713</u>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>40,046</b>	<b>28,387</b>

The accompanying notes are an integral part of these statements.

**Department of Homeland Security**  
**Consolidated Statement of Financing (page 2 of 2)**  
**For the Years Ended September 30, 2005 and 2004**  
**(In Millions)**

	<u>2005</u> (Unaudited)	<u>2004</u> (Unaudited) (Restated)
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
<b>Components Requiring or Generating Resources in Future Periods:</b>		
Increase in Annual Leave Liability	67	202
Increase in Unfunded Environmental and Disposal Liability	13	62
Increase in Unfunded Claims and Claims Settlement Liabilities	21,651	1,021
Increase in Exchange Revenue Receivable from the Public	(95)	(32)
Increase in Actuarial Pension Liability	1,691	-
Increase in CG Military Post Employment Benefits	17	1,217
Increase in Actuarial Health Insurance Liability	811	133
Other	311	786
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	24,465	3,389
<b>Components not Requiring or Generating Resources:</b>		
Depreciation and Amortization	1,108	1,011
Revaluation of Assets or Liabilities	543	39
Other	243	302
Total Components of Net Cost of Operations that will not Require or Generate Resources	1,894	1,352
<b>Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b>	<b>26,359</b>	<b>4,741</b>
<b>Net Cost of Operations</b>	<b>\$66,405</b>	<b>\$33,128</b>

The accompanying notes are an integral part of these statements.

**Department of Homeland Security  
Statement of Custodial Activity  
For the Years Ended September 30, 2005 and 2004  
(In Millions)**

	<u>2005</u> (Unaudited)	<u>2004</u> (Unaudited)
<b>Revenue Activity:</b>		
Sources of Cash Collections:		
Duties	\$23,198	\$20,966
User Fees	1,305	924
Excise Taxes	2,335	2,271
Fines and Penalties	63	57
Interest	9	11
Miscellaneous	417	225
Total Cash Collections	<u>27,327</u>	<u>24,454</u>
Accrual Adjustment	253	(5)
<b>Total Custodial Revenue</b>	<u>27,580</u>	<u>24,449</u>
<b>Disposition of Collections:</b>		
Transferred to Non-Federal Entities	522	182
Transferred to Federal Entities	25,649	23,287
Refunds and Drawbacks (Notes 19 and 25)	1,159	970
Retained by the Department	250	10
<b>Total Disposition of Custodial Revenue</b>	<u>27,580</u>	<u>24,449</u>
<b>Net Custodial Activity</b>	<u>\$0</u>	<u>\$0</u>

The accompanying notes are an integral part of these statements.

## Notes to the Financial Statements

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting Entity

The Department of Homeland Security (DHS or Department) was established by the *Homeland Security Act of 2002 (HSA)*, Public Law (P.L.) 107-296, dated March 25, 2002, as an executive department of the United States government. The Department is subject to the requirements of the *Department of Homeland Security Financial Accountability Act* (DHS Accountability Act). The strategic goals directly linked to the Department's mission are:

- **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 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 Federal, 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; and
- **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.

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

#### **Directorates:**

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

- U.S. Customs and Border Protection (CBP)
- U.S. Immigration and Customs Enforcement (ICE), including Federal Protective Service (FPS) and Federal Air Marshal Service (FAM)
- Transportation Security Administration (TSA)
- Federal Law Enforcement Training Center (FLETC)

**Emergency Preparedness and Response Directorate (EP&R):** the core of EP&R includes the Federal Emergency Management Agency (FEMA)

**Information Analysis and Infrastructure Protection Directorate (IAIP)  
Science and Technology Directorate (S&T)**

**Management Directorate** (presented in the Net Cost Statement and related notes as part of Departmental Operations and Other, which includes the Office of State and Local Government Coordination and Preparedness and Office of the Inspector General)

**Other Components:**

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

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

**U.S. Citizenship and Immigration Services (USCIS)**

**Office of State and Local Government Coordination and Preparedness (SLGCP)**

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

On July 21, 2004, the President signed the *Project Bioshield Act of 2004*, P.L. 108-276. This 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 EP&R to HHS. Although the program was transferred, operations related to the SNS activities are reflected in the Department's Consolidated Statement of Net Cost through the date of transfer.

During fiscal year 2004, the Department merged the Office of Domestic Preparedness (ODP) with the Office of State and Local Government Coordination (SLGC) to form SLGCP. 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. Beginning in fiscal year 2005, select grant award functions previously administered by EP&R and TSA were transferred to SLGCP. Consequently, the Department is presenting the SLGCP as part of Departmental Operations and Other in the consolidated financial statements and related notes, previously SLGCP was presented as part of the BTS in the consolidated financial statements and related notes. Beginning in fiscal year 2005, FPS was transferred within the Border and Transportation Security Directorate to ICE. Fiscal year 2004 SLGCP and FPS financial results have been reclassified for comparative purposes to conform with the fiscal year 2005 presentation.

The fiscal year 2005 Department of Homeland Security Appropriations Act directed the transfer of missions and assets of the Air Marine Operations (AMO) from ICE to CBP (both components of BTS). The transfer was completed in two phases. Phase One was completed on October 31, 2004, moving AMO intact from ICE to CBP. This phase included the transfer of responsibility for all AMO operations, personnel, missions, commitments, facilities, and assets to CBP. Phase Two, which commenced in late November 2004 and completed in August 2005, integrated all CBP air and marine operations, personnel, missions, and assets into the CBP Office of Border Patrol. Fiscal year 2004 AMO financial results have been reclassified in the accompanying financial statements for comparative purposes to conform with the fiscal year 2005 presentation.

Beginning fiscal year 2005, ICE assumed the financial management functions previously provided to FPS by the General Services Administration, and USCG assumed the financial management functions of TSA and FAM.

On July, 13, 2005, the DHS Secretary announced details of a realignment of the Department to increase its ability to prepare, prevent, and respond to terrorist attacks and other emergencies. The statutory authority of the HSA provides certain flexibility for the Secretary of DHS to establish, consolidate, alter or discontinue organizational units within the Department. The mechanism for implementing these changes is a notification to Congress, required under Section 872 of the HSA, allowing for the changes to take effect after 60 days. Other proposed changes require legislative action. Proposed changes impacting several Directorates including BTS, IAIP and ERP are not scheduled to take place until fiscal year 2006, pending congressional approval.

## **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) Circular A-136, *Financial Reporting Requirements* (Circular A-136). 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 prepared pursuant to the *DHS Accountability Act and Accountability of Tax Dollars Act* (applies to fiscal year 2004) and *Chief Financial Officers Act*. These financial statements consist of the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, the Consolidated Statement of Financing and the Statement of Custodial Activity as of and for the years ended September 30, 2005 and 2004.

The Department's financial statements reflect the reporting of component activities including appropriations received to conduct operations and revenue generated from operations. The financial statements also reflect the reporting of certain non-entity (custodial) functions performed on behalf of the Federal government and others (CBP has the authority to assess and collect duties, taxes and fees for the governments of Puerto Rico and the U.S. Virgin Islands).

Transactions are recorded on an accrual and a budgetary 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 facilitates compliance with legal constraints and the use of Federal funds. Obligations are recognized when new orders are placed, contracts are awarded and services are received, which will require payments during the same or future periods. The Consolidated Statement of Financing reconciles the net cost of operations with the budgetary resources. Non-entity revenue and refunds are reported on the Statement of Custodial Activity using a modified cash basis. With this method, revenues from cash collections are reported separately from receivable accruals, and cash disbursements are reported separately from payable accruals.

Intragovernmental 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. Intragovernmental earned revenues are collections or accruals of revenue from other Federal agencies. Intragovernmental costs are payments or

accruals to other Federal agencies. Transactions and balances among the Department's components 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 Circular A-136, the Statement of Budgetary Resources is presented on a combined basis; therefore, intradepartmental transactions and balances have not been eliminated from this statement. In accordance with OMB Circular A-136, intradepartmental transactions and balances have been eliminated from all 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.

The Consolidated Statement of Net Cost no longer separates intragovernmental and public costs and revenues on the face of the statement. These separate costs and revenues are displayed in Note 23. Within this disclosure, intragovernmental costs (exchange transactions made between two reporting entities within the Federal government) are presented separately from costs with the public (exchange transactions made between the reporting entity and a non-Federal entity). Intragovernmental exchange revenue (exchange transactions made between two reporting entities within the Federal government) are disclosed separately from exchange revenue with the public (exchange transactions made between the reporting entity and a non-Federal entity). The criteria used for this classification requires that the intragovernmental expenses relate to the source of goods and services purchased by the reporting entity and not to the classification of related revenue. For example, with "exchange revenue with the public," the buyer of the goods or services is a non-Federal entity. With "intragovernmental costs," the buyer and seller are both Federal entities. If a Federal entity purchases goods or services from another Federal entity and sells them to the public, the exchange revenue would be classified as "with the public," but the related costs would be classified as "intragovernmental." The purpose of this classification is to enable the Federal government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

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 appropriations is subject to

the *Economy Act (31 United States Code (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.

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 consist primarily 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, 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 FEMA'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.

Exchange revenue for TSA consists of security fees assessed on the public and air carriers pursuant to PL 107-71, the Aviation and Transportation Security Act.

USCIS 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 deferred and not considered earned until the application is adjudicated.

### **Imputed Financing Sources**

In certain instances, operating costs of DHS are paid out of funds appropriated to other Federal agencies. For example, the Office of Personnel Management (OPM), by law, pays certain costs of retirement programs, and certain legal judgments against DHS are paid from a Judgment Fund maintained by the Department of the Treasury. When costs that are identifiable to DHS and directly attributable to DHS operations are paid by other agencies, DHS recognizes these amounts as operating expenses. DHS also recognizes an imputed financing source on the Consolidated Statement of Changes in Net Position to indicate the funding of DHS operations by other Federal agencies.

Imputed intradepartmental costs are the un-reimbursed portion of the full costs of goods and services received by the Department or a component from a providing component that is part of DHS. DHS identifies intra-entity costs that meet the criteria for recognition (materiality, significance to the entity, directness of the relationship to entity operations and identifiability) that are not fully reimbursed by the receiving component and recognizes them at full cost. To accomplish this recognition, the receiving component recognizes an imputed financing source for the difference between the actual payment, if any, and the full cost. In preparation of the financial statements, these costs and imputed financing sources have been eliminated in the process of consolidation.

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

Non-entity assets are 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 include duties, excise taxes, and various non-exchange fees collected by CBP and USCIS 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 an importer's merchandise is brought into the United States, the importer is 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, custodial revenue, and disposition of 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. These revenue collections primarily result from current fiscal year activities. Generally, CBP records an equal and offsetting 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. Application fees collected by USCIS for nonimmigrant petitions are recorded as deferred revenue at the time of collection, and the revenue is recognized as the petitions are adjudicated.

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

- **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. User fees include 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. Refunds include drawback remittance paid when imported merchandise, for which duty was previously paid, is exported from the United States.

Duties, user fees, fines and penalties are assessed pursuant to the provisions of Title 19 United States Code (U.S.C.); Immigration fees under Title 8 U.S.C., and; Excise taxes under Title 26 U.S.C. CBP also enforces over 400 laws and regulations some of which require the collection of fees or the imposition of fines and penalties pursuant to other Titles within the U.S.C. or Code of Federal Regulations (C.F.R.).

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. The amount is based on past experience in resolving disputed assessments, the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties and an analysis of aged receivable activity. CBP 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 Federal Entities as 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 and special fund amounts remaining as of the 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 EP&R, 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 consist of undeposited collections, imprest funds, cash used in undercover operations, cash held as evidence and seized cash and monetary instruments. Cash and other monetary assets are presented as a component of other assets in the accompanying Consolidated Balance Sheet.

### **F. Investments, Net**

Investments consist of United States government non-marketable Treasury securities and are reported at cost or amortized cost net of premiums or discounts. The Bureau of Public Debt (BPD) manages certain trust funds for the Department, including the USCG Oil Spill Liability Trust 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 these investments to maturity.

### **G. Advances and Prepayments**

Intragovernmental advances consist primarily of EP&R's disaster recovery and assistance grants to other Federal agencies tasked with mission assignments. Advances are expensed as they are used by grant recipients. At year-end, the amount of grant funding unexpended is estimated based on cash transactions reported by the grant administrator used by EP&R. In accordance with OMB Circular A-110, the Department provides advance funds to grant recipients to incur expenses related to the approved grant. Advances are made within the amount of the total grant obligation.

Advances and Prepayments to the public, presented as a component of other assets in the accompanying Consolidated Balance Sheet, consist primarily of EP&R and SLGCP disaster recovery and assistance grants to states and other grants. The largest category is Emergency Management Performance

Grants, a consolidation of grant programs that supports state and local emergency management staffs and 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. Accounts Receivable, Net

Accounts receivable represent amounts owed to the Department by other Federal agencies and the public. Intragovernmental accounts receivable reported as a component of other intragovernmental assets on the Consolidated Balance Sheet generally arise from the provision of goods and services to other Federal agencies and are expected to be fully collected.

Public accounts receivable consist of amounts due to CBP from commercial air and sea vessel carriers for immigration user fees, 1931 Act overtime services, and breached bonds; reimbursable services and user fees collected and interest assessed by CBP; premiums and restitution due to EP&R from Write Your Own (WYO) insurance companies participating in EP&R'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.

## I. Credit Program Receivables, Net

EP&R 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, EP&R transacts direct loans to local governments who meet statutorily set eligibility criteria. Credit program receivables consist of such loans and are recorded as other assets in the accompanying Consolidated Balance Sheet. Loans are accounted for as receivables as funds are disbursed.

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 to the United States Government for its loan programs. The subsidy cost is equal to the present value of the estimated cash outflows over the life of the loans minus the present value of the estimated cash inflows, discounted at the applicable Treasury interest rate. Administrative costs such as salaries and contractual fees are not included. Subsidy costs can arise from interest rate differentials, interest subsidies, delinquencies and defaults, and other cash flows. EP&R 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.

## J. Operating Materials, Supplies, and Inventory, Net

Operating materials and supplies (OM&S) are primarily consumed during normal operations to service USCG, and, to a lesser extent, CBP vessels and aircraft. OM&S are valued based on a weighted moving average method or on 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, which is based on the condition of various asset categories, as well as USCG's and CBP's historical experience with using and 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 ship repair and general inventory. 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 the public or other government agencies.

## K. Seized and Forfeited Property

Prohibited seized 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 non-cash 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 seized property for which the title has passed to the United States government. However, prohibited forfeited items such as counterfeit goods, narcotics, or firearms are held by CBP until disposed of 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 10.

CBP will 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 with 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 or donated to charity (if not prohibited by law). 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.

USSS seizes property for violation of laws it is authorized to enforce. Seized and forfeited property result principally from investigations of credit card fraud, bank fraud, wire fraud, computer fraud and counterfeiting. The items seized by USSS include genuine and counterfeit currency, monetary instruments (cashier's checks, money orders), real property and tangible personal property of others. Although the property is not legally owned by USSS until judicially or administratively forfeited, USSS does have a fiduciary responsibility for such property.

#### **L. 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. 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. 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 components operate. Other buildings are provided by the General Services Administration (GSA), which charges rent equivalent to the commercial rental rates for similar properties.

Internal use software includes purchased commercial off-the-shelf software (COTS), contractor developed software, and internally developed software. For COTS software, the capitalized costs include the amount paid to the vendor for the software. For contractor developed software the capitalized costs include the amount paid to a contractor to design, program, install and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development phase.

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.

The schedule of capitalization thresholds shown below is a summary of the range of capitalization rules in place for the 22 legacy agencies that comprise the Department at inception. The DHS policy, Management Directive No. 1120, allows these agencies to continue using their legacy rules until a more comprehensive approach is developed that takes into account the vast differences across components in size and asset usage.

## CAPITALIZATION THRESHOLD

The ranges of capitalization thresholds used by components, by primary asset category, are as follows:

Asset Description	Capitalization Threshold
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. Depreciation is calculated on a straight-line method for all asset classes over their estimated useful lives. 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. The estimated useful life is 3 to 10 years for calculating amortization of software using the straight-line method. 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.

### M. 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 United States 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 United States Government, acting in its sovereign capacity, can abrogate liabilities of the Department arising from other than contracts.

### N. Contingent Legal Liabilities and Environmental Cleanup Costs

#### Contingent Legal Liabilities

Certain conditions exist as of the date the financial statements are issued, which may result in a loss contingency to the government, but which will only be resolved when one or more future events occur or fail to occur. DHS management and general legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing contingencies related to legal proceedings that are pending against DHS, or unasserted claims that may result in such pro-

ceedings, general legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amounts of relief sought or expected to be brought therein.

If the assessment of the loss contingency indicates that it is probable that a material liability has been incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the financial statements. If the assessment indicates that a potentially material contingent liability is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material is disclosed.

Contingent liabilities considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

### **Environmental Cleanup Costs**

Accruals for environmental cleanup costs are the costs of removing, containing, and/or disposing of hazardous wastes or materials that, because of quantity, concentration, or physical or chemical characteristics may pose a substantial present or potential hazard to human health or the environment. Cleanup costs for general PP&E placed into service in fiscal year 1998 and thereafter may be allocated to operating periods based on the physical capacity of the PP&E or accrued over the useful life if physical capacity is not applicable or estimable. Expense recognition shall begin on the date that the PP&E is placed into service. Regardless of the method the result should be the accumulation of total cleanup costs liability at the time when the PP&E ceases operation.

For all PP&E in service as of October 1, 1997, DHS recognizes the estimated total (ultimate) cleanup costs associated with the PP&E at the time the cleanup requirement is identified. DHS will not prorate a cleanup cost over the life of these PP&E. However, the estimate may be subsequently adjusted for material changes due to inflation/deflation or changes in regulations, plans, or technology. The applicable costs of decommissioning DHS' existing and future vessels will be considered cleanup costs.

### **O. Grants Liability**

EP&R, SLGCP, 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. EP&R 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. Grants issued by TSA through September 30, 2004 are maintained jointly by TSA and SLGCP. Grants liabilities are combined with accounts payable to the public in the accompanying Consolidated Balance Sheet.

## **P. Claims and Claims Settlement Liabilities**

EP&R 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.

## **Q. Debt and Borrowing Authority**

Debt is reported within other intragovernmental 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 EP&R "State Share Loans". Borrowing authority for Community Disaster Loans is requested on an "as needed basis".

## **R. 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.

## **S. Workers' Compensation**

A liability is recorded for accrued and estimated future payments to be made for workers' compensation pursuant to the *Federal Employees' Compensation Act* (FECA). The accrued liability is presented as a component of intragovernmental other liabilities as it is payable to the U. S. Department of Labor (DOL), and the actuarial liability is presented within accrued payroll and benefits in the accompanying Consolidated Balance Sheet. The FECA program is administered by the 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 intragovernmental liability are made available to the Department as part of its annual appropriation from Congress in the year in which the reimbursement takes place.

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.

## **T. 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 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 7 percent of base pay for regular CSRS employees, and 7.5 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 11.2 percent of base pay for regular FERS employees and 23.8 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 additional 4 percent of base pay. The Department also contributes the employer's Social Security matching share for FERS participants.

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 aggre-

gate 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.

### **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.

## **U. 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, depreciation, subsidy re-estimates, deferred revenues, NFIP claims and settlements, actuarial workers compensation assumptions, MRS and other pension, retirement and post-retirement benefit assumptions, allowances for doubtful duties, fines, and penalties, 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.

## **V. 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.

## **W. Reclassifications**

Certain fiscal year 2004 balances have been reclassified for consistent disclosures with 2005 balances, including transfer of the FPS from BTS to ICE, the transfer of the Air and Marine Interdiction program from ICE to CBP, and realignment of SLGCP from BTS Directorate to Management Directorate. Some Grants were realigned between EP&R and TSA and the Management Directorate (which includes SLGCP). In addition, taxes, duties, and receivables were combined by entity and non-entity.

## 2. NON-ENTITY ASSETS

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

	2005 (unaudited)	2004 (unaudited)
Intragovernmental:		
Fund Balance with Treasury	\$5,067	\$3,342
Receivables Due From Treasury (note 12)	144	170
Total Intragovernmental	<u>5,211</u>	<u>3,512</u>
Public:		
Tax, Duties, and Trade Receivables, Net (note 7)	1,349	1,195
Other	63	36
Total Public	<u>1,412</u>	<u>1,231</u>
Total Non-Entity Assets	6,623	4,743
Total Entity Assets	107,883	46,063
<b>Total Assets</b>	<b><u>\$114,506</u></b>	<b><u>\$50,806</u></b>

Non-entity fund balance with Treasury consists of special and deposit funds, permanent and indefinite appropriations and miscellaneous receipts that are available to pay non-entity liabilities presented on the Consolidated Balance Sheet. Non-entity fund balance with Treasury at September 30, 2005 and 2004, includes (in deposit fund) approximately \$4.7 billion and \$2.9 billion of duties collected by CBP on imports of Canadian softwood lumber and \$316 million and \$375 million (in special fund) for Injured Domestic Industries (IDI) at September 30, 2005 and 2004, respectively. These assets off-set accrued liabilities at September 30, 2005 and 2004 (see note 19).

Non-entity receivables due from Treasury represent an estimate of duty, tax and/or fee refunds and drawbacks that will be reimbursed by a permanent and indefinite appropriation account and will be used to pay estimated duty refunds and drawbacks payable of \$118 million and \$132 million at September 30, 2005 and 2004, respectively (see note 19). 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 intragovernmental liability due to the Treasury General Fund, which equaled \$1.4 billion and \$1.3 billion at September 30, 2005 and 2004, respectively (see notes 7 and 14).

### 3. FUND BALANCE WITH TREASURY

#### A. Fund Balance with Treasury

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

	2005 (unaudited)	2004 (unaudited)
Appropriated Funds	\$89,494	\$27,587
Trust Funds	39	48
Revolving, Liquidating, and Working Capital Funds	100	435
Special Funds	2,455	2,131
Deposit Funds	4,916	3,235
<b>Total Fund Balance with Treasury</b>	<b>\$97,004</b>	<b>\$33,436</b>

Appropriated funds consist of amounts appropriated annually by Congress to fund the operations of the Department and its components. Appropriated funds included clearing funds totaling \$106 million and a \$457 million at September 30, 2005 and 2004, which represent reconciling differences with Treasury balances. The significant increase in appropriated funds is due to the Disaster Relief Fund receiving two emergency supplemental appropriations in September 2005 for Hurricane Katrina. For further details, see Other Accompanying Information, Effects of Hurricanes Katrina and Rita.

Trust funds include both receipt accounts and 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 \$25 million and \$321 million at September 30, 2005 and 2004, 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 due to qualifying IDI of \$316 million and \$375 million at September 30, 2005 and 2004, respectively. The Department also has special funds for immigration user fees of \$179 million and \$154 million at September 30, 2005 and 2004, respectively; CBP user fees of \$741 million and \$730 million at September 30, 2005 and 2004, respectively; immigration examination fees of \$777 million and \$715 million at September 30, 2005 and 2004 respectively; as well as 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 \$4.7 billion and \$2.9 billion of duties collected on imports of Canadian softwood lumber at September 30, 2005 and 2004, respectively (see Notes 2 and 19).

**B. Status of Fund Balance with Treasury**

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

	2005 (unaudited)	2004 (unaudited)
Unobligated Balances:		
Available	\$51,882	\$5,718
Unavailable	5,177	1,638
Obligated Balance Not Yet Disbursed	38,443	25,802
Subtotal	<u>95,502</u>	<u>33,158</u>
Adjustments for:		
Receipt, Clearing, and Deposit Funds	5,026	3,466
Borrowing Authority	(3,301)	(1,500)
Investments	(729)	(1,612)
Receivable Transfers and Imprest Fund	(79)	(76)
Receipt unavailable for obligation	585	-
<b>Total Status of Fund Balance with Treasury</b>	<b><u>\$97,004</u></b>	<b><u>\$33,436</u></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, 2005 and 2004. Included in adjustments for deposit funds are restricted balances of \$4.7 billion and \$2.9 billion for Canadian softwood lumber at September 30, 2005 and 2004, respectively, of non-entity funds, and receipts that are not available for obligation.
- Borrowing authority is in budgetary status for use by EP&R for disaster relief purposes and Community disaster loans.
- 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 represent monies moved from fund balance with Treasury to imprest funds with no change in the budgetary status.
- Receipts immediately upon collection are unavailable for obligation. The receipts are not available for obligation until a specified time in the future.

Portions of the unobligated balances available, unavailable and obligations balance not yet disbursed contains CBP’s user fees of \$741 million and \$730 million (at September 30, 2005 and 2004), 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.

During September 2005, the Disaster Relief Fund received two supplemental appropriations totaling \$60 billion for Hurricane Katrina. As of September 30, 2005, this fund has an unobligated balance available of \$46.4 billion. For further details, see Other Accompanying Information, Effects of Hurricanes Katrina and Rita.

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 \$16.8 billion and \$6.4 billion at September 30, 2005 and 2004, respectively.

## 4. INVESTMENTS, NET

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

Type of Investment:	2005 (unaudited)	2004 (unaudited)
<i>U.S. Treasury Securities:</i>		
USCG – Non-Marketable, Par Value	\$736	\$839
EP&R – Non-Marketable, Market-Based	2	786
<b>Total Intragovernmental Investments, Net</b>	<b>\$738</b>	<b>\$1,625</b>

Unexpended funds in the USCG Oil Spill Liability Trust Fund (OSLTF) and the gift fund are invested by the U.S. Treasury – Bureau of Public Debt in U.S. government securities and are purchased and redeemed at par. 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.

EP&R maintains investments for the NFIP and the gifts and bequests fund. EP&R investments are restricted to Treasury bonds, bills, notes and overnight securities. EP&R's non-marketable, market-based investments balance at September 30, 2005 represents investments remaining in the gifts and bequests fund. Investments in NFIP were withdrawn in fiscal year 2005 to pay flood insurance claims for damages caused by four major hurricanes which occurred late in fiscal year 2004. The current EP&R investments portfolio consists principally of overnight securities, which have neither market value variances nor unamortized premium or discount.

Market value of all investments approximates cost and balances include applicable accrued interest.

## 5. ACCOUNTS RECEIVABLE, NET

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

	2005 (unaudited)	2004 (unaudited)
Accounts Receivable	\$929	\$781
Allowance for Doubtful Accounts	(397)	(318)
<b>Net Accounts Receivable w/ Public</b>	<b>\$532</b>	<b>\$463</b>

Intragovernmental accounts receivable are presented as a component of other assets, and results from reimbursable work performed by USCG, ICE, EP&R, and CBP (see note 12). Accounts receivable with the public consists of amounts due to CBP, TSA, EP&R, USCG and ICE for overpayment of refunds, reimbursable services and user fees.

## 6. ADVANCES AND PREPAYMENTS

Intragovernmental advances and prepayments at September 30, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
Disaster Relief Fund	\$2,726	\$2,718
Other	211	168
<b>Total Intragovernmental Advances and Prepayments</b>	<b>\$2,937</b>	<b>\$2,886</b>

Disaster relief fund (DRF) advances consists of EP&R's disaster assistance grants to other Federal agencies (principally the Department of Transportation) 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 12).

## 7. TAX, DUTIES, AND TRADE RECEIVABLES, NET

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

As of September 30, 2005 (unaudited):

Receivables Category	Gross Receivables	Allowance	Total Net Receivables
Duties	\$1,207	(\$97)	\$1,110
Excise Taxes	88	(6)	82
User Fees	84	(1)	83
Fines/Penalties	1,116	(1,032)	84
Anti-Dumping/Countervailing Duties	217	(176)	41
<b>Total Tax, Duties, and Trade Receivables, Net</b>	<b>\$2,712</b>	<b>(\$1,312)</b>	<b>\$1,400</b>

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
Anti-Dumping/Countervailing Duties	180	(142)	38
<b>Total Tax, Duties, and Trade Receivables, Net</b>	<b>\$2,258</b>	<b>(\$985)</b>	<b>\$1,273</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 93 percent (94 percent at September 30, 2004) of the total assessment based on historical experience of fines and penalties mitigation and collection.

## 8. CREDIT PROGRAM RECEIVABLES, NET

All credit program activities and the related receivables of the Department relate to EP&R.

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

	2005 (unaudited)	2004 (unaudited)
	Loans Receivable, Net	Loans Receivable, Net
<b>Community Disaster Loans</b>	<b>\$ .5</b>	<b>\$6.8</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).

### 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, 2005 (unaudited):				
<b>Community Disaster Loans</b>	<b>\$2.3</b>	<b>\$1.4</b>	<b>(\$3.2)</b>	<b>\$ .5</b>
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>

The value of assets related to direct loans, net of allowance for subsidy cost, is included in other assets on the consolidated balance sheet.

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

### E. Subsidy Expense for Direct Loans (in millions):

	2005 (unaudited)	2004 (unaudited)
Subsidy Expense for New Direct Loans Disbursed	None	None
Modifications and Re-estimates (Prior reporting year)	\$4.5	None
Total Direct Loan Subsidy Expense	\$4.5	None

**F. Direct Loan Subsidy Rates**

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

	2005 (unaudited)		2004 (unaudited)	
	Community Disaster Loans	State Share Loans	Community Disaster Loans	State Share Loans
Interest Subsidy Cost	3.72 %	(2.98) %	2.48 %	(2.40) %
Default Costs	- %	- %	- %	- %
Other	89.72 %	0.38 %	90.78 %	0.38 %

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

	2005 (unaudited)	2004 (unaudited)
Beginning Balance of the Subsidy cost allowance	\$185.1	\$171
Adjustments:		
(a) Loans written off	(188.4)	(1.7)
(b) Subsidy allowance amortization	6.5	11.3
Ending balance of the subsidy cost allowance before reestimates	3.2	180.6
Add subsidy reestimate by component		
(a) Technical/default reestimate	-	4.5
<b>Ending balance of the subsidy cost allowance</b>	<b>\$3.2</b>	<b>\$185.1</b>

The amount of loans written off during fiscal year 2005 includes the cancellation of \$127 million (principal only) in loan to the government of the Virgin Islands.

**H. Administrative Expenses (in millions):**

	2005 (unaudited)	2004 (unaudited)
Community Disaster and State Share Loans	<b>\$4</b>	<b>\$5</b>

## 9. OPERATING MATERIALS, SUPPLIES, AND INVENTORY, NET

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

	2005 (unaudited)	2004 (unaudited)
OM&S		
Items Held for Use	\$362	\$360
Items Held for Future Use	86	84
Excess, Obsolete and Unserviceable Items	7	7
Less: Allowance for Losses	(7)	(7)
Total OM&S, Net	<u>448</u>	<u>444</u>
Inventory		
Inventory Purchased for Resale	59	53
Less: Allowance for Losses	(1)	(1)
Total Inventory, Net	<u>58</u>	<u>52</u>
Total OM&S and Inventory, Net	<u><u>\$506</u></u>	<u><u>\$496</u></u>

## 10. PROHIBITED SEIZED PROPERTY

Prohibited seized property item counts, as of September 30, and activity for the fiscal years ended September 30, 2005 and 2004, are as follows:

### 2005

#### Seizure Activity

Seized Property:	Fiscal Year Ended September 30, 2005 (unaudited)					Seized Property:
Category	Balance October 1, 2004	New Seizures	Remissions	New Forfeitures	Adjustments	September 30 Weight/Items
Illegal Drugs (in kilograms):						
Cannabis (marijuana)	2,176	444,751	-	(446,861)	436	502
Cocaine	144	31,818	-	(31,345)	(455)	162
Heroin	18	1,230	-	(1,225)	3	26
Firearms and Explosives (in number of items)	7,788	1,454	(5,798)	(1,364)	(59)	2,021
Counterfeit Currency (US/ Foreign, in number of items)	2,877,743	804,946	-	-	(328,629)	3,364,060
Pornography (in number of items)	133	213	(5)	(182)	(18)	141

#### Forfeiture Activity

Forfeited Property:	Fiscal Year Ended September 30, 2005 (unaudited)					Forfeited Property:
Category	Balance October 1, 2004	New Forfeitures	Transfers	Destroyed	Adjustments	September 30 Weight/Items
Illegal Drugs (in kilograms):						
Cannabis (marijuana)	98,657	446,861	(641)	(419,668)	(32,375)	92,834
Cocaine	17,348	31,345	(58)	(26,576)	(546)	21,513
Heroin	2,545	1,225	(1)	(1,664)	(1)	2,104
Firearms and Explosives (in number of items)	297	1,364	(1,307)	(14)	(64)	276
Pornography (in number of items)	37	182	-	(189)	9	39

2004

Seizure Activity						
Seized Property:	Fiscal Year Ended September 30, 2004 (unaudited)					Seized Property:
Category	Balance October 1, 2003	New Seizures	Remissions	New Forfeitures	Adjustments	September 30 Weight/Items
Illegal Drugs (in kilograms):						
Cannabis (marijuana)	331	560,809	-	(561,551)	2,587	2,176
Cocaine	153	36,632	-	(36,630)	(11)	144
Heroin	22	1,591	-	(1,597)	2	18
Firearms and Explosives (in number of items)	7,757	3,830	(1,112,180)	-	(199,964)	2,887,743
Counterfeit Currency (US/Foreign, in number of items)	2,853,395	1,346,492	(1,112,180)	-	(199,964)	2,887,743
Pornography (in number of items)	178	353	(5)	(367)		133
Forfeiture Activity						
Forfeited Property:	Fiscal Year Ended September 30, 2004 (unaudited)					Forfeited Property:
Category	Balance October 1, 2003	New Forfeitures	Transfers	Destroyed	Adjustments	September 30 Weight/Items
Illegal Drugs (in kilograms):						
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 (in number of items)	1,340	634	(1,699)	(39)	61	297
Pornography (in number of items)	80	367	-	(414)	4	37

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. 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. 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.

## 11. PROPERTY, PLANT, AND EQUIPMENT, NET

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

As of September 30, 2005 (unaudited):	Service Life	Gross Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	\$63	\$ -	\$63
Improvements to Land	3-50 yrs	50	22	28
Construction in Progress	N/A	2,403	-	2,403
Buildings, Other Structures and Facilities	2-50 yrs	3,702	1,803	1,899
Equipment:				
ADP Equipment	3-5 yrs	212	98	114
Aircraft	10-35 yrs	2,318	1,288	1,030
Vessels	5-45 yrs	4,131	2,009	2,122
Vehicles	3-6 yrs	503	344	159
Other Equipment	2-30 yrs	3,459	1,701	1,758
Assets Under Capital Lease	2-20 yrs	81	26	55
Leasehold Improvements	3-50 yrs	280	76	204
Internal Use Software	3-10 yrs	481	250	231
Internal Use Software- in Development	N/A	404	-	404
<b>Total Property, Plant, and Equipment</b>		<b>\$18,087</b>	<b>\$7,617</b>	<b>\$10,470</b>

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	10-35 yrs	2,885	1,919	966
Vessels	5-45 yrs	4,045	1,843	2,202
Vehicles	3-6 yrs	484	311	173
Other Equipment	2-30 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>

## 12. OTHER ASSETS

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

	2005 (unaudited)	2004 (unaudited)
Intragovernmental:		
Accounts Receivable (note 5)	\$217	\$311
Receivables Due From Treasury (note 2)	144	170
<b>Total Intragovernmental</b>	<b>361</b>	<b>481</b>
Public:		
Advances and Prepayments	480	356
Cash and Other Monetary Assets	78	87
Credit Program Receivables, Net (note 8)	-	7
Other	-	(50)
<b>Total Public</b>	<b>558</b>	<b>400</b>
<b>Total Other Assets</b>	<b>\$919</b>	<b>\$881</b>

Advances and prepayments with the public consist primarily of NFIP payments made by EP&R.

The negative \$50 million represents an allowance for subsidy which exceeds the amount due. This excess allowance was written off during the current fiscal year.

### 13. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

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

	2005 (unaudited)	2004 (unaudited) Restated
Intragovernmental:		
Accrued FECA Liability (Note 17)	\$358	\$240
Borrowings from U.S. Treasury (BPD)	226	8
Other	-	2
<b>Total Intragovernmental</b>	<b>584</b>	<b>250</b>
Public:		
Military Service and Other Retirement Benefits (Note 18)	29,021	26,502
Accrued Payroll and Benefits:		
Accrued Leave (Note 17)	729	663
Other Employment Related Liability (Note 17)	105	105
Actuarial FECA Liability (Note 17)	1,473	1,398
Claims and Claims Settlement Liabilities (Notes 15 and 30)	22,679	1,030
Other:		
Environmental Cleanup Costs (Note 21)	158	144
Contingent Liabilities (Note 21)	221	54
Capital Lease Liability (Note 20)	75	148
<b>Total Public</b>	<b>54,461</b>	<b>30,044</b>
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$55,045</b>	<b>\$30,294</b>
Liabilities Covered by Budgetary Resources or Non-Entity Assets	14,700	12,025
<b>Total Liabilities</b>	<b>\$69,745</b>	<b>\$42,319</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.

### 14. DUE TO THE TREASURY GENERAL FUND

Amounts due to the Treasury General Fund of \$1.4 billion and \$1.3 billion, as of September 30, 2005 and 2004, respectively, represent duty, tax, and fee revenues collected by CBP to be 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.

## 15. CLAIMS AND CLAIMS SETTLEMENT LIABILITIES

Claims and Claims Settlement Liabilities at September 30, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
National Flood Insurance Program	\$23,406	\$1,357
<i>Cerro Grande Fire Assistance Act</i>	27	60
<b>Total Claims and Claims Settlement Liabilities</b>	<b>\$23,433</b>	<b>\$1,417</b>

### 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, 2005 and 2004, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
Beginning Balance	\$1,357	672
Incurring losses and increase estimated losses	25,407	1,505
Less: Amounts paid during current period	(3,358)	(820)
<b>Total NFIP Liability at September 30</b>	<b>\$23,406</b>	<b>\$1,357</b>

The increase in 'Incurring losses and increase estimated losses' was primarily due to hurricane Katrina which impacted the Gulf Coast in August 2005. The funded NFIP liability at September 30, 2005 and 2004 is \$727 million and \$327 million, respectively.

### 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, 2005 and 2004, 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, 2005 and 2004, 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, 2005 and 2004, includes \$7 million and \$9 million, respectively, which is unfunded.

## 16. DEFERRED REVENUE AND ADVANCES FROM OTHERS

Deferred revenue at September 30, and CIS application fee activity for the years ended September 30, 2005 and 2004, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
CIS Application Fees:		
Beginning Balance	\$889	\$949
Collection deposited	1,604	1,354
Less: earned revenue (completed applications)	(1,733)	(1,429)
Adjustments for undeposited collections and other	13	15
Total CIS Application Fees	<u>773</u>	<u>889</u>
EP&R Unexpired NFIP premium	1,226	1,095
Advances from Others	14	14
Deferred Credits	1	22
<b>Total Deferred Revenue</b>	<b><u>\$2,014</u></b>	<b><u>\$2,020</u></b>

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

## 17. ACCRUED PAYROLL AND BENEFITS

Accrued Payroll and Benefits at September 30, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
Accrued Funded Payroll and Benefits	\$523	\$495
Accrued Unfunded Leave	729	663
Unfunded Employment Related Liabilities	105	105
Actuarial FECA Liability	1,473	1,398
Other	15	31
<b>Total Accrued Payroll and Benefits</b>	<b>\$2,845</b>	<b>\$2,692</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 FECA liability representing money owed for current claims at September 30, 2005 and 2004 was \$358 million and \$240 million, respectively, and is included in other liabilities (see note 19). 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, 2005 and 2004, were approximately \$1.5 billion and \$1.4 billion, respectively. Workers' compensation expense was \$141 million and \$130 million, respectively, for the fiscal years ended September 30, 2005 and 2004.

## 18. MILITARY SERVICE AND OTHER RETIREMENT BENEFITS

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

	2005 (unaudited)	2004 (unaudited)
USCG Military Retirement and Healthcare Benefits	\$25,468	\$23,037
USCG Post-Employment Military Travel Benefits	100	83
USSS DC Pension Plan Benefits	3,453	3,382
<b>Total Military Service and Other Retirement Benefits Liability</b>	<b>\$29,021</b>	<b>\$26,502</b>

### A. Military Retirement System Expense

The components of the Military Retirement System (MRS) expense for the years ended September 30, 2005 and 2004, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
Defined Benefit Plan:		
Normal cost	\$481	\$419
Interest on the liability	1,259	1,162
Actuarial losses/(gains)	617	(101)
Actuarial Assumption Change	103	39
Plan Amendments	-	432
Total Defined Benefit Plan Expense	<u>2,460</u>	<u>1,951</u>
Post-retirement Healthcare:		
Normal cost	174	143
Interest on the liability	266	219
Losses/(gains) due to change in medical inflation rate assumptions	471	(128)
Adjustments	24	-
Total Post-retirement Healthcare Expense	<u>935</u>	<u>234</u>
Total MRS Expense	<u><b>\$3,395</b></u>	<u><b>\$2,185</b></u>

The USCG's MRS includes 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 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.

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

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

These assumptions are based on a 1997 Experience Study and USCG plans to update the study in fiscal year 2006. Fiscal year 2005 actuarial assumption changes included a salary scale increase from 3.5% to 3.75% and updated Veterans Administration (VA) waiver and combat related pay assumptions.

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

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, 2005 are:

- (1) life expectancy is based upon the 1994 Uninsured Pension (UP94) tables;
- (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 years ended September 30, 2005 and 2004, were \$188 million and \$173 million, respectively, of which \$17 million and \$16 million were funded but not paid at September 30, 2005 and 2004, respectively.

## 19. OTHER LIABILITIES

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

	2005 (unaudited)	2004 (unaudited)
<b>Intragovernmental:</b>		
Accrued FECA Liability	\$358	\$240
Advances from Others	109	139
Employer Benefits Contributions and Payroll Taxes	96	69
Borrowings from Treasury	226	-
Other Intragovernmental Liabilities	65	115
<b>Total Intragovernmental Other Liabilities</b>	<u>854</u>	<u>563</u>
<b>Public:</b>		
Duties for Imports of Canadian Softwood Lumber (Notes 2 and 3)	4,706	2,940
Injured Domestic Industries (Notes 2 and 3)	237	332
Contingent Legal Liabilities (Note 21)	247	80
Capital Lease Liability (Note 20)	129	148
Environmental and Disposal Liabilities (Note 21)	172	159
Refunds and Drawbacks (Note 2 and 25)	118	132
Other Public Liabilities	336	375
<b>Total Public Other Liabilities</b>	<u>5,945</u>	<u>4,166</u>
<b>Total Other Liabilities</b>	<u><u>\$6,799</u></u>	<u><u>\$4,729</u></u>

Intragovernmental accrued FECA liability primarily represents the unfunded workers' compensation for current claims. Borrowings from Treasury represents money borrowed against the NFIP borrowing authority of \$1.5 billion to pay flood insurance claims, mainly for damages caused by four major hurricanes which occurred late in fiscal year 2004. Other public liabilities consist primarily of liability for deposit funds and suspense at ICE and CBP. Intragovernmental 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, 2005 and 2004, totaled \$237 million and \$332 million, respectively. CBP has collected Canadian softwood lumber duties of \$4.7 billion and \$2.9 billion respectively, as of September 30, 2005 and 2004. 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 antidumping dispute currently being litigated.

### Refunds and Other Payments

Disbursements from the refunds and drawback account for the fiscal years ended September 30, 2005 and 2004 consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
Refunds	\$729	\$566
Drawback	430	404
<b>Total</b>	<b>\$1,159</b>	<b>\$970</b>

The disbursements include interest payments of \$33 million and \$45 million, for the fiscal years ended September 30, 2005 and 2004 respectively. Refunds and other payments funded from collections rather than the refunds and drawback account totaled \$354 million and \$251 million for the fiscal years ended September 30, 2005 and 2004, respectively.

Amounts refunded during the fiscal years ended September 30, 2005 and 2004, identified by entry year, consisted of the following (in millions):

Entry Year	2005 (unaudited)	2004 (unaudited)
2005	\$684	\$ -
2004	139	531
2003	42	128
2002	21	64
Prior Years	273	247
<b>Total</b>	<b>\$1,159</b>	<b>\$970</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, 2005 and 2004 consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
Antidumping and countervailing duty refunds	\$124	\$75
Interest	14	19
<b>Total Antidumping and countervailing duty refunds</b>	<b>\$138</b>	<b>\$94</b>

## 20. 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, 2005, estimated future minimum lease commitments under operating leases for equipment and GSA controlled leases were as follows (in millions):

	GSA	Non-GSA	Total
FY 2006	\$813	\$134	\$947
FY 2007	844	150	994
FY 2008	851	155	1,006
FY 2009	870	161	1,031
FY 2010/ Beyond FY 2009	893	165	1,058
Beyond FY 2010	4,309	655	4,964
<b>Total future minimum lease payments</b>	<b>\$8,580</b>	<b>\$1,420</b>	<b>\$10,000</b>

The estimated future lease payments for GSA controlled leases are based on payments made during the year ended September 30, 2005.

### 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 may be funded from future sources.

## 21. 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, 2005, was \$247 million, of which \$26 million is funded. (At September 30, 2004, the estimated contingent liability was \$80 million, of which \$26 million was funded). Asserted and pending legal claims for which loss is reasonably possible was estimated to range from \$319 million to \$2.5 billion, at September 30, 2005. 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 liability of \$172 million (\$14 million funded), as of September 30, 2005 and \$159 million (\$15 million funded), as of September 30, 2004 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 CBP and 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, environmental laws and regulations, and plans for disposal.

### C. Duty and Trade Refunds

There are various trade related matters that fall under the jurisdiction of other Federal agencies, such as the Department of Commerce, which may result in refunds of duties, taxes and fees collected by CBP. Until a decision is reached by the other Federal agencies, CBP does not have sufficient information to estimate a contingent liability amount, if any, for trade related refunds under jurisdiction of other Federal agencies in addition to the amount accrued on the accompanying financial statements. All known refunds as of September 30, 2005, and 2004, have been recorded.

### D. Loaned Aircraft and Equipment

The Department is generally liable to the DoD for damage or loss to aircraft on loan to CBP, AMO. As of September 30, 2005, CBP had 16 aircraft loaned from DoD with an acquisition value of \$94 million

(unaudited). (These aircraft were reported as on loan to ICE, as of September 30, 2004. During fiscal year 2005, ICE transferred these loaned aircraft to CBP. No damage or aircraft losses were accrued as of September 30, 2005.

### **E. Other Contractual Arrangements**

In addition to future lease commitments discussed in Note 20, 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 \$35 billion and \$21 billion as of September 30, 2005 and 2004, respectively.

During fiscal year 2004, TSA entered into a number of *Letters of Intent for Modifications to Airport Facilities* with eight major airports in which TSA may reimburse the airports for 75% (estimated total of \$957 million) of the cost to modify the facilities for security purposes. These Letters of Intent would not obligate TSA until funds have been appropriated and obligated. In addition, each airport shall have title to any improvements to its facilities. During fiscal year 2005, \$269 million was appropriated and is available for payment to the airports upon submission to TSA of an invoice for the modification costs incurred. As of September 30, 2005, TSA has received invoices or documentation for costs incurred and paid in a total of \$204 million related to these agreements. The amounts requested under these Letters of Intent may differ significantly from the original estimates and, therefore, TSA could ultimately pay substantially more than originally estimated.

### **F. 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 have historically been 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).

FEMA's practice of recording a year-end obligation against budgetary obligations for estimated losses was changed in fiscal year 2005. Consistent with the guidance contained in Section 20.5 of OMB Circular A-11, FEMA now enters obligations against its budgetary allocation when final approval is provided on a claim. The resulting correction of this error is disclosed in Note 30 to these financial statements.

## 22. BALANCE SHEET CROSSWALK TO OMB CIRCULAR A-136 CLASSIFICATIONS

The Department's consolidated balance sheet is presented in a format which varies from the format prescribed by OMB Circular A-136. The following tables show reclassification adjustments needed to present the Balance Sheet in the OMB Circular A-136 format (in millions):

As of September 30, 2005: (Unaudited)	As Presented	Reclassification		OMB A-136
		debit	credit	
<b>Assets</b>				
Intragovernmental:				
Fund Balance with Treasury	\$97,004	\$ -	\$ -	\$97,004
Investments	738	-	-	738
Advances and Prepayments	2,937	-	2,937	-
Accounts Receivable	-	217	-	217
Loans Receivable	-	-	-	-
Other	361	2,720	-	3,081
<b>Total Intragovernmental</b>	<b>101,040</b>	<b>2,937</b>	<b>2,937</b>	<b>101,040</b>
Cash and Other Monetary Assets	-	78	-	78
Investments	-	-	-	-
Accounts Receivable	532	-	-	532
Taxes Receivable, Net	1,400	-	-	1,400
Loans Receivable, Net	-	-	-	-
Operating Materials, Supplies, & Inventory, Net	506	-	506	-
Inventory and Related Property, Net	-	506	-	506
General Property, Plant and Equipment, Net	10,470	-	-	10,470
Other	558	-	78	480
<b>Total Assets</b>	<b>\$114,506</b>	<b>\$3,521</b>	<b>\$3,521</b>	<b>\$114,506</b>
<b>Liabilities</b>				
Intragovernmental:				
Due to the Treasury General Fund	\$1,434	\$1,434	\$ -	\$ -
Accounts Payable	870	-	-	870
Debt	-	-	226	226
Other	854	-	1,208	2,062
<b>Total Intragovernmental</b>	<b>3,158</b>	<b>1,434</b>	<b>1,434</b>	<b>3,158</b>
Accounts Payable	3,329	-	-	3,329
Loan Guarantee Liability	-	-	-	-
Debt held by the Public	-	-	-	-
Claims and Claims Settlement Liabilities	23,433	23,433	-	-
Deferred Revenue and Advances from Others	2,014	2,014	-	-
Accrued Payroll and Benefits	2,845	2,845	-	-
Military Service and Other Retirement Benefits	29,021	29,021	-	-
Federal Employee and Veteran Benefits	-	-	30,501	30,501
Environmental and Disposal Liability	-	-	172	172
Benefits Due and Payable	-	-	-	-
Other	5,945	-	26,640	32,585
<b>Total Liabilities</b>	<b>69,745</b>	<b>58,747</b>	<b>58,747</b>	<b>69,745</b>
<b>Net Position</b>				
Unexpended Appropriations	87,166	-	-	87,166
Cumulative Results of Operations	(42,405)	-	-	(42,405)
<b>Total Net Position</b>	<b>\$44,761</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$44,761</b>
<b>Total Liabilities and Net Position</b>	<b>\$114,506</b>	<b>\$58,747</b>	<b>\$58,747</b>	<b>\$114,506</b>

<b>As of September 30, 2004: (Unaudited)</b>	<b>As Presented</b>	<b>Reclassification</b>		<b>OMB A-136</b>
<b><u>Assets</u></b>		<b>debit</b>	<b>credit</b>	
<b>Intragovernmental:</b>				
Fund Balance with Treasury	\$33,436	\$ -	\$ -	\$33,436
Investments	1,625	-	-	1,625
Advances and Prepayments	2,886	-	2,886	-
Accounts Receivable	-	311	-	311
Loans Receivable	-	-	-	-
Other	481	2,575	-	3,056
<b>Total Intragovernmental</b>	<b>38,428</b>	<b>2,886</b>	<b>2,886</b>	<b>38,428</b>
Cash and Other Monetary Assets	-	87	-	87
Investments	-	-	-	-
Accounts Receivable	463	-	-	463
Taxes Receivable, Net	1,273	13	-	1,286
Loans Receivable, Net	-	-	-	-
Operating Materials, Supplies, & Inventory, Net	496	-	496	-
Inventory and Related Property, Net	-	496	-	496
General Property, Plant and Equipment, Net	9,746	-	-	9,746
Other	400	-	100	300
<b>Total Assets</b>	<b>\$50,806</b>	<b>\$3,482</b>	<b>\$3,482</b>	<b>\$50,806</b>
<b><u>Liabilities</u></b>				
<b>Intragovernmental:</b>				
Due to the Treasury General Fund	\$1,257	\$1,257	\$ -	\$ -
Accounts Payable	911	-	-	911
Debt	-	-	8	8
Other	563	-	1,249	1,812
<b>Total Intragovernmental</b>	<b>2,731</b>	<b>1,257</b>	<b>1,257</b>	<b>2,731</b>
Accounts Payable	2,791	-	-	2,791
Loan Guarantee Liability	-	-	-	-
Debt held by the Public	-	-	-	-
Claims and Claims Settlement Liabilities	1,417	1,417	-	-
Deferred Revenue and Advances from Others	2,020	2,020	-	-
Accrued Payroll and Benefits	2,692	2,692	-	-
Military Service and Other Retirement Benefits	26,502	26,502	-	-
Federal Employee and Veteran Benefits	-	-	27,828	27,828
Environmental and Disposal Liability	-	-	159	159
Benefits Due and Payable	-	-	-	-
Other	4,166	-	4,644	8,810
<b>Total Liabilities</b>	<b>42,319</b>	<b>33,888</b>	<b>33,888</b>	<b>42,319</b>
<b><u>Net Position</u></b>				
Unexpended Appropriations	25,504	-	-	25,504
Cumulative Results of Operations	(17,017)	-	-	(17,017)
<b>Total Net Position</b>	<b>\$8,487</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$8,487</b>
<b>Total Liabilities and Net Position</b>	<b>\$50,806</b>	<b>\$33,888</b>	<b>\$33,888</b>	<b>\$50,806</b>

## 23. CONSOLIDATED STATEMENT OF NET COST AND NET COSTS OF DHS COMPONENTS

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 presented in Note 1.A., Reporting Entity.

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 this note, in which costs by program are allocated to Departmental strategic goals. Also, the required disclosure on intragovernmental costs and exchange revenue is presented by DHS sub-organizations. In addition, 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 BTS Directorate's sub organizations.

**Net Costs of Department Sub-organizations by Strategic Goal (in millions)**  
 For the year ended September 30, 2005 (Unaudited)

	Awareness	Prevention	Protection	Response	Recovery	Service	Organizational Excellence	TOTAL
<b>BTS Directorate:</b>								
BTS HQ	\$ -	\$100	\$ -	\$ -	\$ -	\$82	\$ -	\$182
CBP	-	5,939	-	-	-	501	-	6,440
ICE	-	3,378	500	-	-	-	-	3,878
TSA	7	3,572	62	-	-	-	-	3,641
FLE	-	226	-	-	-	-	-	226
<b>Subtotal – BTS Directorate</b>	<b>7</b>	<b>13,215</b>	<b>562</b>	<b>-</b>	<b>-</b>	<b>583</b>	<b>-</b>	<b>14,367</b>
<b>EP&amp;R Directorate</b>								
IAIP Directorate	-	-	25,933	2,272	9,422	-	-	37,627
S&T Directorate	263	-	389	-	-	-	-	652
USCG	114	417	174	26	-	-	-	731
USSS	937	3,723	2,032	1,155	29	1,493	-	9,369
CIS	-	(93)	1,483	-	-	(238)	-	1,483
Departmental Operations/Other	-	-	1,886	-	-	-	621	(331)
<b>TOTAL Department</b>	<b>\$1,321</b>	<b>\$17,262</b>	<b>\$32,459</b>	<b>\$3,453</b>	<b>\$9,451</b>	<b>\$1,838</b>	<b>\$621</b>	<b>\$66,405</b>

**Net Costs of Department Sub-organizations by Strategic Goal (in millions)**  
For the year ended September 30, 2004 (Unaudited)

	Awareness	Prevention	Protection	Response	Recovery	Service	Organizational Excellence	TOTAL
<b>BTS Directorate:</b>								
BTS HQ	\$ -	\$9	\$1	\$1	\$ -	\$ -	\$ -	\$11
CBP	-	5,511	-	-	-	413	-	5,924
ICE	58	3,023	737	-	-	-	-	3,818
TSA	151	2,473	1,018	37	-	-	113	3,792
FLE	22	88	85	-	-	-	1	196
<b>Subtotal – BTS Directorate</b>	<b>231</b>	<b>11,104</b>	<b>1,841</b>	<b>38</b>	<b>-</b>	<b>413</b>	<b>114</b>	<b>13,741</b>
<b>EP&amp;R Directorate</b>	<b>-</b>	<b>-</b>	<b>1,501</b>	<b>1,125</b>	<b>3,271</b>	<b>-</b>	<b>-</b>	<b>5,897</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
Departmental Operations/Other	-	-	1,937	-	-	-	325	2,262
<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>

**Statement of Net Cost sub-schedule:  
Intragovernmental Costs and Exchange Revenue (in millions)  
For the year ended September 30, 2005  
(Unaudited)**

	Intragovernmental	With the Public	Total
<b>BTS Directorate</b>			
Gross Cost	\$3,702	\$14,212	\$17,914
Less Earned Revenue	(640)	(2,907)	(3,547)
Net Cost	3,062	11,305	14,367
<b>EP&amp;R Directorate</b>			
Gross Cost	1,785	38,020	39,805
Less Earned Revenue	(107)	(2,071)	(2,178)
Net Cost	1,678	35,949	37,627
<b>IAIP Directorate</b>			
Gross Cost	475	177	652
Less Earned Revenue	-	-	-
Net Cost	475	177	652
<b>S&amp;T Directorate</b>			
Gross Cost	484	259	743
Less Earned Revenue	(12)	-	(12)
Net Cost	472	259	731
<b>USCG</b>			
Gross Cost	980	8,609	9,589
Less Earned Revenue	(133)	(87)	(220)
Net Cost	847	8,522	9,369
<b>USSS</b>			
Gross Cost	361	1,144	1,505
Less Earned Revenue	(22)	-	(22)
Net Cost	339	1,144	1,483
<b>USCIS</b>			
Gross Cost	525	766	1,291
Less Earned Revenue	(14)	(1,608)	(1,622)
Net Cost	511	(842)	(331)
<b>Departmental Operations and Other</b>			
Gross Cost	460	2,059	2,519
Less Earned Revenue	(12)	-	(12)
Net Cost	448	2,059	2,507
<b>DHS Total</b>			
Gross Cost	8,772	65,246	74,018
Less Earned Revenue	(940)	(6,673)	(7,613)
<b>NET COST</b>	<b>\$7,832</b>	<b>\$58,573</b>	<b>\$66,405</b>

**Statement of Net Cost sub-schedule:  
Intragovernmental Costs and Exchange Revenue (in millions)  
For the year ended September 30, 2004  
(Unaudited)**

	Intragovernmental	With the Public	Total
<b>BTS Directorate</b>			
Gross Cost	\$2,891	\$13,755	\$16,646
Less Earned Revenue	(547)	(2,358)	(2,905)
Net Cost	2,344	11,397	13,741
<b>EP&amp;R Directorate</b>			
Gross Cost	599	7,220	7,819
Less Earned Revenue	(119)	(1,901)	(2,020)
Net Cost of Continuing Operations	480	5,319	5,799
Cost of Transferred Operations	98		98
Net Cost	578	5,319	5,897
<b>IAIP Directorate</b>			
Gross Cost	349	148	497
Less Earned Revenue	-	-	-
Net Cost	349	148	497
<b>S&amp;T Directorate</b>			
Gross Cost	359	396	755
Less Earned Revenue	-	-	-
Net Cost	359	396	755
<b>USCG</b>			
Gross Cost	1,186	7,131	8,317
Less Earned Revenue	(90)	(67)	(157)
Net Cost	1,096	7,064	8,160
<b>USSS</b>			
Gross Cost	389	997	1,386
Less Earned Revenue	(18)	-	(18)
Net Cost	371	997	1,368
<b>USCIS</b>			
Gross Cost	553	1,205	1,758
Less Earned Revenue	15	(1,325)	(1,310)
Net Cost	568	(120)	448
<b>Departmental Operations and Other</b>			
Gross Cost	380	1890	2,270
Less Earned Revenue	(7)	(1)	(8)
Net Cost	373	1,889	2,262
<b>DHS Total</b>			
Gross Cost	6,804	32,742	39,546
Less Earned Revenue	(766)	(5,652)	(6,418)
NET COST	<b>\$6,038</b>	<b>\$27,090</b>	<b>\$33,128</b>

**Statement of Net Cost sub-schedule:  
Components of Border and Transportation Security (BTS) Directorate (in millions)  
For the year ended September 30, 2005  
(Unaudited)**

	Intragovernmental	With the Public	Total
<b>BTS HQ (Office of Undersecretary)</b>			
Gross Cost	\$28	\$154	\$182
Less Earned Revenue	-	-	-
Net Cost	28	154	182
<b>CBP</b>			
Gross Cost	1,188	5,871	7,059
Less Earned Revenue	(33)	(586)	(619)
Net Cost	1,155	5,285	6,440
<b>ICE (with FAM)</b>			
Gross Cost	1,309	3,213	4,522
Less Earned Revenue	(557)	(87)	(644)
Net Cost	752	3,126	3,878
<b>TSA</b>			
Gross Cost	1,150	4,744	5,894
Less Earned Revenue	(20)	(2,233)	(2,253)
Net Cost	1,130	2,511	3,641
<b>FLETC</b>			
Gross Cost	27	230	257
Less Earned Revenue	(30)	(1)	(31)
Net Cost	(3)	229	226
<b>BTS Directorate Total</b>			
Gross Cost	3,702	14,212	17,914
Less Earned Revenue	(640)	(2,907)	(3,547)
<b>NET COST - BTS</b>	<b>\$3,062</b>	<b>\$11,305</b>	<b>\$14,367</b>

**Statement of Net Cost sub-schedule:  
Components of Border and Transportation Security (BTS) Directorate (in millions)  
For the year ended September 30, 2004  
(Unaudited)**

	Intragovernmental	With the Public	Total
BTS HQ (Office of Undersecretary)			
Gross Cost	\$6	\$5	\$11
Less Earned Revenue	-	-	-
Net Cost	6	5	11
CBP			
Gross Cost	1,677	4,582	6,259
Less Earned Revenue	(62)	(273)	(335)
Net Cost	1,615	4,309	5,924
ICE (with FAM)			
Gross Cost	610	3,586	4,196
Less Earned Revenue	(366)	(12)	(378)
Net Cost	244	3,574	3,818
TSA			
Gross Cost	571	5,387	5,958
Less Earned Revenue	(95)	(2,071)	(2,166)
Net Cost	476	3,316	3,792
FLETC			
Gross Cost	27	195	222
Less Earned Revenue	(24)	(2)	(26)
Net Cost	3	193	196
BTS Directorate Total			
Gross Cost	2,891	13,755	16,646
Less Earned Revenue	(547)	(2,358)	(2,905)
NET COST - BTS	<b>\$2,344</b>	<b>\$11,397</b>	<b>\$13,741</b>

## 24. COMBINED STATEMENT OF BUDGETARY RESOURCES (SBR)

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 \$124,661 million and \$53,879 million for fiscal years 2005 and 2004, respectively, include 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 (in millions)

Appropriations received on the SBR of \$106,691 million will not equal the amounts reported on the Consolidated Statement of Changes in Net Position (SCNP) of \$101,251 million due to: 1) \$4,544 million of trust and special fund receipts that are not reflected in the unexpended appropriation section of the SCNP; 2) \$33 million of change in amounts appropriated from specific Treasury-managed trust funds; 3) \$845 million of refunds and drawbacks; and 4) \$18 million of receipts unavailable for obligations upon collections.

### B. Permanently Not Available/Adjustments (in millions)

	2005 (unaudited)	2004 (unaudited)
Budgetary resources permanently not available per SBR	\$1,961	\$2,563
Appropriations Returned per SCNP	1,876	2,398
Difference (explained below)	<u>\$85</u>	<u>\$165</u>

Budgetary resources permanently not available on the SBR do not agree with the unavailable appropriations returned to Treasury on the SCNP due to: (1) trust, special and revolving funds which go through the cumulative results of operations and not unexpended appropriations; (2) repayments of debt that were processed through payables and not unexpended appropriations; and (3) 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).

<b>FY Ended September 30, 2005:</b>	<b>Apportionment Category A</b>	<b>Apportionment Category B</b>	<b>Exempt from Apportionment</b>	<b>Total</b>
Obligations Incurred - Direct	\$27,064	\$36,310	\$853	<b>\$64,227</b>
Obligations Incurred - Reimbursable	3,740	655	(1)	<b>4,394</b>
<b>Total Obligations Incurred</b>	<b>\$30,804</b>	<b>\$36,965</b>	<b>\$852</b>	<b>\$68,621</b>

<b>FY Ended September 30, 2004:</b>	<b>Apportionment Category A</b>	<b>Apportionment Category B</b>	<b>Exempt from Apportionment</b>	<b>Total</b>
Obligations Incurred - Direct	\$23,239	\$18,634	\$734	<b>\$42,607</b>
Obligations Incurred - Reimbursable	2,015	854	11	<b>2,880</b>
<b>Total Obligations Incurred</b>	<b>\$25,254</b>	<b>\$19,488</b>	<b>\$745</b>	<b>\$45,487</b>

### D. Borrowing Authority for EP&R

The NFIP has borrowing authority of \$3.5 billion and \$1.5 billion, as of September 30, 2005 and 2004 respectively, available 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 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. EP&R's liability for borrowed amounts was \$226 million and \$8 million respectively, at September 30, 2005 and 2004.

Under Credit Reform, the unsubsidized portion of direct loans is borrowed from the Treasury. The repayment terms of EP&R'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.

EP&R 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 EP&R for Disaster Assistance Direct Loans. 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 years ended September 30, 2005 and 2004 is presented below (in millions):

**Budgetary Resources**

	<u>2005</u> (unaudited)	<u>2004</u> (unaudited)
Budget Authority:		
Borrowing Authority	\$26	\$26
Spending Authority from Offsetting Collections:		
Receivable from Federal Sources	8	(3)
Recoveries of Prior Year Obligations	-	3
Permanently Not Available:		
Other Authority Withdrawn	(8)	(26)
<b>Total Budgetary Resources</b>	<u><u>\$26</u></u>	<u><u>\$0</u></u>
<b>Total Status of Budgetary Resources</b>	<u><u>\$26</u></u>	<u><u>\$0</u></u>
<b>Total Outlays</b>	<u><u>\$8</u></u>	<u><u>\$0</u></u>

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

The SBR has been prepared in a format consistent with the amounts shown in the President's Budget (Budget of the United States Government). The actual amounts for fiscal year 2005 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 2004 amounts was released in February 2005, and the actual fiscal year 2005 amounts are estimated to be released in February 2006.

The Department's fiscal year 2004 budget amounts does not match the fiscal year 2004 President's Budget. The Obligated Balance, Beginning of Period, and the Unobligated Balance, Beginning of Period, does not equal the balance reported in the prior fiscal year as a result of a correction of an error associated with the recording of obligations for FEMA's National Flood Insurance Program (see Note 30).

**25. 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. 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 \$1,159 million and \$970 million for the fiscal years ended September 30, 2005 and 2004 respectively, 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 to participants in the DC Pension Plan (see note 18), 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.

## 26. 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 \$760 million and \$1,015 million at September 30, 2005 and 2004 respectively, that represents the Department's authority to assess and collect user fees relating to merchandise and passenger processing, to assess and collect fees associated with services performed at certain small airports or other facilities, retain amounts needed to offset costs associated with collecting duties, and taxes and fees for the government of Puerto Rico. These special fund balances are restricted by law in their use to offset specific costs incurred by the Department. Part of the passenger fees in the User Fees Account, totaling approximately \$741 million and \$730 million at September 30, 2005 and 2004 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.

## 27. EXPLANATION OF THE RELATIONSHIP BETWEEN LIABILITIES NOT COVERED BY BUDGETARY RESOURCES AND THE CHANGES IN COMPONENTS REQUIRING OR GENERATING RESOURCES IN FUTURE PERIODS

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 Consolidated Statement of Financing were analyzed. The differences are primarily due to the increase in EP&R claims and claims settlement of \$21.6 billion and USCG actuarial pension liability of \$1.7 billion and other USCG military post employment liability of \$1 billion in fiscal year 2005, which do not generate net cost of operations or require the use of budgetary resources. In fiscal year 2004, the differences were primarily due to the increase in EP&R claims and claims settlement liability of \$1.0 billion and the increase in the USCG actuarial pension liability of \$1.3 billion.

## 28. 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.

### 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 years ended September 30, 2005 and 2004 is presented below (in millions):

	2005 (unaudited)		2004 (unaudited)	
	Oil Spill Liability Trust Fund	Boat Safety Account	Oil Spill Liability Trust Fund	Boat Safety Account
<b>Assets:</b>				
Investments	\$735	\$ -	\$838	\$ -
Other Assets	48	71	26	68
<b>Total Assets</b>	<b>\$783</b>	<b>\$71</b>	<b>\$864</b>	<b>\$68</b>
<b>Liabilities:</b>				
Accounts Payable	\$ -	\$16	\$1	\$19
Other Liabilities	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>16</b>	<b>1</b>	<b>19</b>
<b>Net Position:</b>				
Beginning Balance	863	49	1,010	35
Non-Exchange Revenue	44	64	(32)	64
Less: Program Expenses	(124)	(58)	(115)	(50)
<b>Net Position</b>	<b>783</b>	<b>55</b>	<b>863</b>	<b>49</b>
<b>Total Liabilities and Net Position</b>	<b>\$783</b>	<b>\$71</b>	<b>\$864</b>	<b>\$68</b>

## 29. TRANSFER OF THE STRATEGIC NATIONAL STOCKPILE

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 – Intragovernmental	\$98
Less Earned Revenue – Intragovernmental	-
Net Cost – Intragovernmental	<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>

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

## 30. RESTATEMENTS

### A. Budgetary Obligations Related to EPR National Flood Insurance Program

DHS restated amounts in the FY 2004 combined statement of budgetary resources to correct an error associated with the recording of budgetary obligations for the National Flood Insurance Program (NFIP). EPR previously recorded a year-end obligation against budgetary allocations for estimated losses related to the NFIP. Following hurricane Katrina in August 2005, OMB informed EPR that their accounting policy of recording budgetary obligations for estimated losses, prior to the receipt of a claim and approval of payment by the government, was inconsistent with the guidance provided in OMB Circular A-11. Consistent with the guidance contained in Section 20.5 of OMB Circular A-11, EPR should enter obligations against their budgetary allocation when final approval is provided on the claim. After consultation with DHS budget management and legal council, DHS agreed to correct its accounting policy and restate its fiscal year 2004 Combined Statement of Budgetary Resources and Consolidated Statement of Financing. There was no effect on the Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, or Statement of Custodial Activity due to this change in realigning flood insurance obligations. The Combined Statement of Budgetary Resources and Consolidated Statement of Financing are presented below reflecting the balances as presented in fiscal year 2004 and as restated in fiscal year 2005 financial statements.

#### Combined Statement of Budgetary Resources (in millions)

	As Presented	As Restated	Change
<b>Status of Budgetary Resources</b>			
Obligations incurred:			
Direct	\$43,628	\$42,607	\$(1,021)
Reimbursable	2,880	2,880	-
Total obligations incurred	\$46,508	\$45,487	\$(1,021)
Unobligated Balance			
Apportioned	\$5,691	\$6,712	\$1,021
Exempt from Apportionment	42	42	-
Unobligated Balance Not Available	1,638	1,638	-
<b>Total Status of Budgetary Resources</b>	<b>\$53,879</b>	<b>\$53,879</b>	<b>\$ -</b>
<b>Relationship of Obligations to Outlays</b>			
Accounts Payable	\$5,866	\$4,845	\$(1,021)

**Consolidated Statement of Financing (in millions)**

<b>Resources Used to Finance Activities</b>	Original	Restated	Change
<b>Budgetary Resources Obligated</b>			
Obligations Incurred	\$46,508	\$45,487	\$(1,021)
Obligations Net of Offsetting Collections and Recoveries	37,835	36,814	(1,021)
Net Obligations	34,056	33,035	(1,021)
<b>Total Resources Used to Finance Activities</b>	<b>34,121</b>	<b>33,100</b>	<b>(1,021)</b>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>29,408</b>	<b>28,387</b>	<b>(1,021)</b>
Components Requiring or Generating Resources in Future Periods:			
Increase in Claims and Claims Settlement Liabilities	-	1,021	1,021
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	2,368	3,389	1,021
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	3,720	4,741	1,021

**Liabilities Not Covered by Budgetary Resources (Note 13) (in millions)**

	Original	Restated	Change
Claims and Claims Settlement Liabilities	\$9	\$1,030	\$1,021
Total Public	29,023	30,044	1,021
Total Liabilities Not Covered by Budgetary Resources	29,273	30,294	1,021
Liabilities Covered by Budgetary Resources or Non-Entity Assets	13,046	12,025	(1,021)

**B. Correction of Error in the Accounts at ICE:**

Financial statement errors, affecting the prior year, were discovered while performing reconciliations of accounts receivable, and clearing balances carried in suspense over a long period of time. Since the errors related to transactions that occurred in prior years, correcting adjustments were made to restate the beginning fiscal year 2005 statement of net position by decreasing cumulative results of operations by \$127 million, and increasing unexpended appropriations by \$163 million.

## 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.

Deferred maintenance as of September 30, 2005 was estimated to range from \$734 million to \$890 million on general property, plant and equipment and heritage assets. In fiscal year 2004, the Department reported estimated deferred maintenance of \$591 million (without range). These amounts represent 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, 2005 is presented below (in millions):

	Low estimate	High estimate	Asset Condition
Building & Structures	\$497	\$619	Poor to Fair
Equipment (vehicles and vessels)	113	127	Poor to Fair
Heritage assets	124	144	Poor to Fair
<b>Total</b>	<b>\$734</b>	<b>\$890</b>	

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

## INTRAGOVERNMENTAL TRANSACTION DISCLOSURES

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

The amount of intragovernmental assets and liabilities classified by trading partner at September 30, 2005 and 2004, are summarized below.

### Intragovernmental Assets as of September 30, 2005 (in millions)

Partner Agency	Fund Balance with Treasury	Investments and Related Interest	Advances and Prepayments	Other
Treasury General Fund	\$97,004	\$ -	\$ -	\$144
Department of Commerce	-	-	52	-
Department of Interior	-	-	31	72
Department of Justice	-	-	84	3
Department of Labor	-	-	31	-
Department of the Navy	-	-	2	17
Department of State	-	-	(2)	6
Department of Treasury	-	738	12	49
Environmental Protection Agency	-	-	-	9
Department of the Air Force	-	-	-	8
Department of the Army	-	-	-	12
Department of Transportation	-	-	2,639	2
Department of Housing and Urban Development	-	-	79	-
Office of the Secretary of Defense Agencies	-	-	8	21
The Judiciary	-	-	-	12
Other	-	-	1	6
<b>Totals</b>	<b>\$97,004</b>	<b>\$738</b>	<b>\$2,937</b>	<b>\$361</b>

See accompanying Independent Auditors' Report.  
Required Supplementary Information

**Intragovernmental 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	\$33,436	\$-	\$ -	\$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	-	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>

**Intragovernmental Liabilities as of September 30, 2005 (in millions)**

<b>Partner Agency</b>	<b>Due to Treasury</b>	<b>Accounts Payable</b>	<b>Other</b>
Treasury General Fund	\$1,434	\$ -	\$14
Department of Agriculture	-	24	-
Department of Commerce	-	2	-
Department of Interior	-	7	-
Department of Justice	-	167	9
Department of Labor	-	3	358
Department of the Navy	-	66	2
Department of State	-	6	8
Department of Treasury	-	4	236
Department of Veterans Affairs	-	10	-
Department of the Army	-	30	77
Department of the Air force	-	23	-
Office of Personnel Management	-	6	66
Social Security Administration	-	-	10
General Services Administration	-	(40)	42
Environmental Protection Agency	-	13	2
Department of Transportation	-	2	12
Agency for International Development	-	4	-
Department of Health & Human Services	-	21	3
Department of Energy	-	144	2
National Science Foundation	-	3	-
U.S. Army Corps of Engineers	-	91	-
Office of the Secretary of Defense Agencies	-	283	12
Other	-	1	1
<b>Totals</b>	<b>\$1,434</b>	<b>\$870</b>	<b>\$854</b>

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

<b>Intragovernmental Liabilities as of September 30, 2004 (in millions)</b>			
<b>Partner Agency</b>	<b>Due to Treasury</b>	<b>Accounts Payable</b>	<b>Other</b>
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	-	316	12
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**

**FY 2005 Intragovernmental Exchange Revenue from Trade Transactions (in millions)**

<b>Partner Agency</b>	<b>Exchange Revenue</b>
Library of Congress	\$3
The Judiciary	63
Department of Agriculture	19
Department of Commerce	13
Department of Interior	20
Department of Justice	115
Department of Labor	8
Department of the Navy	29
United States Postal Service	6
Department of State	36
Department of Treasury	138
Department of the Army	109
Social Security Administration	94
Department of Veterans Affairs	12
General Services Administration	21
National Science Foundation	20
Department of the Air Force	8
Environmental Protection Agency	27
Department of Transportation	52
Agency for International Development	9
Department of Health & Human Services	25
Department of Housing & Urban Development	6
Department of Energy	6
Department of Education	6
U.S. Equal Employment Opportunity Commission	3
U.S. Army Corps of Engineers	12
Office of the Sec'y of Defense Agencies	59
Other	21
<b>Totals</b>	<b>\$940</b>

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

**FY 2004 Intragovernmental 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 2005 Cost to Generate Intragovernmental Exchange Revenue, by Budget Subfunction (in millions)**

<b>Budget Subfunction</b>	<b>Cost</b>
National Defense	\$6
Transportation	185
Community and Regional Development	107
Administration of Justice	72
General Government	618
<b>Total</b>	<b>\$988</b>

**FY 2004 Cost to Generate Intragovernmental Exchange Revenue, by Budget Subfunction (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**

**FY 2005 Intragovernmental Non-Exchange Revenue (in millions)**

<b>Partner Agency</b>	<b>Transfers-In</b>	<b>Transfers-Out</b>
Treasury General Fund	\$38	\$ -
Department of Agriculture	208	-
Department of Commerce	-	5
Department of Interior	64	7
Department of Treasury	17	7
Environmental Protection Agency	-	16
Department of Transportation	-	15
U.S. Army of Corps of Engineers	3	-
Office of the Sec'y of Defense Agencies	14	15
Other	2	6
<b>Totals</b>	<b>\$346</b>	<b>\$71</b>

**FY 2004 Intragovernmental 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**

**COMBINED SCHEDULE OF FY 2005 BUDGETARY RESOURCES BY RESPONSIBILITY SEGMENTS (IN MILLIONS)**  
 (PAGE 1 OF 3)

	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	Departmental Offices & Other	Total
<b>BUDGETARY RESOURCES</b>									
Budget Authority:									
Appropriations Received	\$17,332	\$72,014	\$894	\$1,115	\$7,649	\$1,386	\$1,702	\$4,599	\$106,691
Borrowing Authority	-	2,026	-	-	-	-	-	-	2,026
Net Transfers	232	(14)	(7)	(5)	98	-	-	22	326
Unobligated Balance:									
Beginning of Period	2,881	3,150	106	381	1,077	55	317	425	8,392
Net Transfers	(89)	-	-	-	100	-	-	-	11
Spending Authority from Offsetting Collections: Earned:									
Collected	4,264	2,710	1	24	421	23	54	219	7,716
Receivable from Federal Sources	(20)	(7)	-	-	(65)	5	(67)	12	(142)
Change in Unfilled Customer Orders:									
Advances Received	(17)	534	-	(4)	(7)	(12)	(7)	84	571
Without Advances From Federal Sources	251	188	5	(1)	30	(5)	7	94	569
Transfers from Trust Funds - Collected	3	-	-	-	47	-	-	-	50
Total Spending Authority from Offsetting Collections	4,481	3,425	6	19	426	11	(13)	409	8,764

(continued)

**COMBINED SCHEDULE OF FY 2005 BUDGETARY RESOURCES BY RESPONSIBILITY SEGMENTS (IN MILLIONS)**  
**(PAGE 2 OF 3)**

**Combined Schedule of FY 2005 Budgetary Resources by Responsibility Segments (in millions), (page 2 of 3)**

	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	Departmental Offices & Other	Total
Recoveries of Prior Year Obligations	472	614	127	64	77	-	56	21	1,431
Temporarily Not Available Pursuant to Public Law	-	-	-	-	-	-	-	-	-
Permanently Not Available	(1,828)	(38)	(5)	-	(52)	(13)	(1)	(24)	(1,961)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$23,481</b>	<b>\$81,177</b>	<b>\$1,121</b>	<b>\$1,574</b>	<b>\$9,375</b>	<b>\$1,439</b>	<b>\$2,061</b>	<b>\$5,452</b>	<b>\$125,680</b>

**STATUS OF BUDGETARY RESOURCES**

Obligations Incurred:									
Direct	\$17,757	\$28,537	\$922	\$1,283	\$7,747	\$1,318	\$1,815	\$4,848	\$64,227
Reimbursable	2,548	1,069	5	15	374	43	(65)	405	4,394
Total Obligations Incurred	20,305	29,606	927	1,298	8,121	1,361	1,750	5,253	68,621
Unobligated Balances Available:									
Apportioned:									
Apportioned Balance Currently Available	1,030	49,290	186	277	831	1	67	155	51,837
Exempt from Apportionment	-	13	-	-	32	-	-	-	45
Unobligated Balances Not Available	2,146	2,268	8	(1)	391	77	244	44	5,177
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$23,481</b>	<b>\$81,177</b>	<b>\$1,121</b>	<b>\$1,574</b>	<b>\$9,375</b>	<b>\$1,439</b>	<b>\$2,061</b>	<b>\$5,452</b>	<b>\$125,680</b>

(continued)

**COMBINED SCHEDULE OF FY 2005 BUDGETARY RESOURCES BY RESPONSIBILITY SEGMENTS (IN MILLIONS)**  
(PAGE 3 OF 3)

	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	Departmental Offices & Other	Total
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>									
Obligated Balance, Net, Beginning of Period	\$4,954	\$9,125	\$550	\$571	\$2,578	\$291	\$532	\$6,167	\$24,781
Obligated Balance Transferred, Net	87	-	-	-	-	-	2	-	89
Obligated Balance, Net, End of Period:									
Accounts Receivable	(177)	(15)	-	-	(80)	(5)	(2)	(16)	(295)
Unfilled Customer Orders from Federal Sources	(739)	(524)	(6)	-	(102)	(4)	(9)	(166)	(1,550)
Undelivered Orders	4,324	19,185	404	720	2,385	163	475	6,958	34,614
Accounts Payable	1,939	2,115	175	232	676	80	154	304	5,674
Total Obligated Balance, Net, End of Period	\$5,346	\$20,761	\$573	\$952	\$2,879	\$234	\$618	\$7,080	\$38,443
<b>Outlays:</b>									
Disbursements	\$19,296	\$17,175	\$771	\$855	\$7,778	\$1,417	\$1,670	\$4,213	\$53,175
Collections	(4,249)	(3,244)	(1)	(20)	(461)	(11)	(47)	(303)	(8,336)
Total Outlays	15,047	13,931	770	835	7,317	1,406	1,623	3,910	44,839
Less: Offsetting Receipts	(2,312)	(5)	-	-	(24)	-	(1,811)	-	(4,152)
<b>NET OUTLAYS</b>	<b>\$12,735</b>	<b>\$13,926</b>	<b>\$770</b>	<b>\$835</b>	<b>\$7,293</b>	<b>\$1,406</b>	<b>(\$188)</b>	<b>\$3,910</b>	<b>\$40,687</b>

**COMBINED SCHEDULE OF FY 2004 BUDGETARY RESOURCES BY RESPONSIBILITY SEGMENTS - RESTATED  
(IN MILLIONS) (PAGE 1 OF 3)**

	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	Departmental Offices & Other	Total
<b>BUDGETARY RESOURCES</b>									
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
Total Spending Authority from Offsetting Collections	3,832	2,283	1	24	375	47	24	105	6,691

(continued)

**COMBINED SCHEDULE OF FY 2004 BUDGETARY RESOURCES BY RESPONSIBILITY SEGMENTS - RESTATED  
(IN MILLIONS) (PAGE 2 OF 3)**

	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	Departmental 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>

**STATUS OF BUDGETARY RESOURCES**

Obligations Incurred:									
Direct	\$21,543	\$8,937	\$760	\$891	\$7,021	\$1,362	\$1,557	\$536	\$42,607
Reimbursable	1,934	389	1	17	350	42	49	98	2,880
Total Obligations Incurred	23,477	9,326	761	908	7,371	1,404	1,606	634	45,487
Unobligated Balances Available:									
Apportioned	2,091	3,047	80	381	858	11	110	134	6,712
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)

**COMBINED SCHEDULE OF FY 2004 BUDGETARY RESOURCES BY RESPONSIBILITY SEGMENTS - RESTATED  
(IN MILLIONS) (PAGE 3 OF 3)**

	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	Departmental Offices & Other	Total
<b>RELATIONSHIP OF OBLIGATIONS TO 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	1,017	140	217	751	54	176	112	4,845
Total Obligated Balance, Net, End of Period	\$10,727	\$9,123	\$551	\$571	\$2,578	\$291	\$532	\$408	\$24,781
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

## 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 years 2005 and 2004, CBP had legal right to collect \$1.4 billion and \$1.3 billion of receivables respectively. In addition, there was an additional \$1.86 billion and \$1.58 billion representing records still in the protest phase for fiscal years 2005 and 2004 respectively. CBP recognized as write-offs \$134 million and \$136 million respectively, of assessments that the Department has statutory authority to collect at September 30, 2005 and 2004, but has no future collection potential. Most of this amount represents fines, penalties and interest..

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, 2005 and 2004, USCG had outstanding general fund receipt receivables due to the Treasury General Fund of \$15 million and \$14 million, respectively.

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

## SEGMENT INFORMATION (IN MILLIONS):

	September 30, 2005			September 30, 2004		
	Working Capital Fund	Revolving Fund: Supply	Revolving Fund: Yard	Working Capital Fund	Revolving Fund: Supply	Revolving Fund: Yard
Fund Balance with Treasury	\$18	\$28	\$28	\$51	\$32	\$30
Accounts Receivable	10	6	7	4	6	6
Property, Plant and equipment	2	-	41	-	-	55
Other Assets	9	41	15	-	36	14
<b>Total Assets</b>	<b>\$39</b>	<b>\$75</b>	<b>\$91</b>	<b>\$55</b>	<b>\$74</b>	<b>\$105</b>
Accounts Payable	\$22	\$23	\$4	\$3	\$23	\$3
Other Liabilities	-	-	42	-	-	47
<b>Total Liabilities</b>	<b>22</b>	<b>23</b>	<b>46</b>	<b>3</b>	<b>23</b>	<b>50</b>
Net Position, Beginning	52	51	55	121	54	56
Revenue	167	96	73	8	96	78
Less: Cost	(202)	(95)	(83)	(77)	(99)	(79)
<b>Net Position, Ending</b>	<b>17</b>	<b>52</b>	<b>45</b>	<b>52</b>	<b>51</b>	<b>55</b>
<b>Total Liabilities and Net Position</b>	<b>\$39</b>	<b>\$75</b>	<b>\$91</b>	<b>\$55</b>	<b>\$74</b>	<b>\$105</b>

The Department's Working Capital Fund (WCF) is a fee-for-service fund 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**

## 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 for the fiscal years ended September 30, 2005 and 2004 (in number of units).

	2005 (unaudited)			2004 (unaudited)		
	USCG	CBP	Total	USCG	CBP	Total
Beginning Balance	19,930	4	19,934	19,619	4	19,623
Additions	599	-	599	516	-	516
Withdrawals	(275)	-	(275)	(205)	-	(205)
Ending Balance	20,254	4	20,258	19,930	4	19,934

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.

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

- 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.

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

**D**ue to the transformational nature of DHS Programs, stewardship investments information is presented only for fiscal year 2005. 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. Fiscal year 2005, investment amounts reported below are an allocation of gross cost based on program outlays.

### Summary of Stewardship Investments (in millions)

Programs	Non-Federal Property	Human Capital	Research and Development
SLGCP – First Responders Programs	\$ -	\$29	\$320
S&T – Research and Development Programs	-	-	543
<b>Total</b>	<b>\$ -</b>	<b>\$29</b>	<b>\$863</b>

**See accompanying Independent Auditors' Report.  
Required Supplementary 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, SLGCP has made significant investments in Human Capital.

### SLGCP

**First Responders Training Programs:** In fiscal year 2005, SLGCP provided various training initiatives to improve the knowledge, skills, and abilities of first responders for prevention, response, and recovery. Highlights of performance information include:

SLGCP			
First Responders Training Programs			
Program	Performance Measure	FY 2005 Target	FY 2005 Results
State and Local Training	Average percentage increase in Weapons of Mass Destruction (WMD) and other knowledge, skills, and abilities of state and local homeland security preparedness professionals receiving training from pre and post assessments.	37%	38.5%
State and Local Training	Percent of jurisdictions demonstrating acceptable performance on applicable critical tasks in exercises using SLGCP approved scenarios.	23%	40%
State and Local Training	The number of state and local homeland security preparedness professionals trained each year.	350,000	487,414

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

## 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, SLGCP and S&T have made significant investments in Research and Development.

### SLGCP

**First Responder Research and Development Programs:** In fiscal year 2005, SLGCP supported initiatives that improved processes or capabilities of the nation’s first responders for prevention, response, and recovery. Highlights of performance information include:

SLGCP			
First Responders Research and Development Programs			
Program	Performance Measure	FY 2005 Target	FY 2005 Results
National Exercise Program	Percent of jurisdictions demonstrating acceptable performance on applicable critical tasks in exercises using SLGCP approved scenarios.	23%	40%
National Exercise Program	Percentage of action items identified in After-Action Reports (AAR) that were implemented.	41%	7%
State Preparedness Grants Program	Percent of jurisdictions demonstrating acceptable performance on applicable critical tasks in exercises using State SLGCP approved scenarios.	23%	40%
State Preparedness Grants Program	Percent of state and local homeland security agency grant recipients reporting measurable progress towards identified goals and objectives to prevent and respond to terrorist attacks.	50%	35%
Urban Areas Security Initiative	Percent of jurisdictions demonstrating acceptable performance on applicable critical tasks in exercises using SLGCP approved scenarios.	Baseline	40%
Urban Areas Security Initiative	Percent of participating urban area grant recipients reporting measurable progress made towards identified goals and objectives to prevent and respond to terrorist attacks.	50%	8%
Technical Assistance	Percent of weaknesses addressed by Technical Assistance in fulfillment of strategic goals to prepare, prevent, and respond to terrorism incidents in the State Strategies each year.	85%	87%

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

## S&amp;T

**Research and Development Programs:** In fiscal year 2005, S&T sponsored several research and development programs to advance the science and intellectual capacity needed to support the Department's mission. Highlights of performance information include:

S&T			
First Responders Research and Development Programs			
Program	Performance Measure	FY 2005 Target	FY 2005 Results
Radiological & Nuclear Countermeasures	Progression on planned capability development for Nuclear Incident Management and Recovery.	Demonstrate two advanced detection technologies.	Demonstrated two advanced detection technologies.
Threat and Vulnerability, Testing Assessments	Improvement in the national capability to assess threats and vulnerabilities to terrorist attacks: 10 categories to be assessed.	7	7
Cyber Security	Development of research infrastructure to provide broad-based support to government/university/private sector research communities, through development and support of a cyber security test bed and cyber security data sets collection and dissemination program.	Prepare demonstration of operational use of cyber security test bed	Multiple demonstrations
Explosives Countermeasures	Number of pilot tests of standoff detection technologies.	One rail environment to detect suicide bombs	One rail environment
Rapid Prototyping	Percent of technologies prototyped or commercialized.	3%	11%
Standards	Establish technical standards and test/evaluation protocols for weapons of mass destruction decontamination technologies and analysis tools. 2) Establish and accredit a network of private/public labs to perform testing, evaluation, and certification of weapons of mass destruction emergency response technologies that will allow effective procurement and deployment of technologies that will substantially reduce risk and enhance resiliency of the federal, state, and local response capability.	Develop technical standards and test/evaluation protocols for WMD decontamination technologies. Develop a network of private/public labs to perform testing, evaluation and certification of WMD emergency response technologies.	Technical standards and test/evaluation protocols were developed. A network of private/public labs to perform testing, evaluation and certification of WMD emergency response technologies was developed.

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

S&T

First Responders Research and Development Programs

Program	Performance Measure	FY 2005 Target	FY 2005 Results
Biological Counter-measures	Improved capabilities to detect threats in urban areas (Urban Monitoring Program)	Increase coverage in top 10 threat cities.	Coverage was increased in top 10 threat cities.
Counter Man-Portable Air Defense System (MANPADS)	Number of effective technology/technologies for commercial aircraft to defeat man-portable anti-aircraft missiles identified. Technologies identified, and prototypes developed and tested.	2 (estimate)	2
University Programs	Number of scholars and fellows supported and number of University Centers of Excellence.	200/4	300/4
Chemical Counter-measures	Development of protocols for the highest priority toxic industrial chemicals (TICs) and toxic industrial materials (TIMs).	Protocols Developed	Development of a prototype mobile laboratory capable of on-site, high throughput analysis of TICs and CWAs was completed and the candidates characterized in field test. An initial evaluation of the risks, vulnerabilities, and consequences due to attacks using the TIC cyanide was initiated.
Interoperability & Compatibility	Improve emergency response interoperability and compatibility to strengthen public safety preparedness and response.	Develop criteria	Criteria not developed

See accompanying Independent Auditors' Report.  
 Required Supplementary Information

## Other Accompanying Information (unaudited)

### TAX BURDEN/ TAX GAP

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**T**he Compliance Measurement (CM) Program was initiated in fiscal year 1995 for the purpose of collecting objective statistical data to determine the compliance level of commercial imports with U.S. trade laws, regulations, and agreements, and to estimate the revenue gap. CM data is also used in risk management decisions to identify high-risk areas and measure the effectiveness of actions taken to improve compliance in those areas.

The preliminary overall trade compliance rate for fiscal year 2005 is 95%, a significant improvement from 89% percent in fiscal year 1998. With overall compliance at a high level, CBP has been able to emphasize matters of significant trade risk.

In fiscal year 2002, CM methodology and contents were adapted for gathering information to address security issues. The utility of statistical sampling for monitoring many kinds of cross-border activity permits CM to support CBP's priority mission of keeping terrorists and terrorist weapons from getting into the United States, while maintaining its traditional contribution to trade compliance oversight.

In fiscal year 2004, CM exam report requirements were further expanded to capture data pertaining to the 24-Hour Advance Manifest law and, in addition, to report on mismatches between bill of lading and entry summary data.

CBP has also calculated the preliminary fiscal year 2005 revenue gap to be \$409 million. The final overall trade compliance rate and estimated revenue gap for fiscal year 2005 will be issued in January 2006. This revenue gap is a calculated estimate that measures our potential loss of revenue due to noncompliance with trade laws, regulations, and agreements using a statistically valid sample of the revenue losses and overpayments detected during Compliance Measurement exams conducted throughout the year.

## IMPROPER PAYMENTS

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To comply with the requirements of the *Improper Payments Information Act of 2002* (IPIA) and related guidance from the Office of Management and Budget (OMB), the Department carried out the next phase of a plan begun in fiscal year 2004, to reduce its susceptibility for issuing improper payments. In fiscal year 2004, the Department completed a risk assessment of major programs. This risk assessment did not identify any programs as at high risk for issuing improper payments. In fiscal year 2005, each component completed statistically significant testing of fiscal year 2004 payments from their largest program (with the exception of FEMA, see below). All major payment types within the largest program were sampled. Estimated error rates and amounts were calculated. As in fiscal year 2004, no program was found to exceed the OMB defined high risk standards of \$10 million and 2.5%.

FEMA's IPIA testing differed from other components as this entity faced unique circumstances and findings. FEMA's largest program in terms of fiscal year 2004 disbursements was state grants. This program is difficult to meaningfully test as the Department is not able to force states to complete IPIA compliant payment testing. FEMA's second largest program, the Individuals and Households Program (IHP), was the subject of a Department Office of Inspector General report (OIG-05-20, May 2005). Findings in this report indicated that FEMA's IHP might be at high risk for issuing improper payments. A first round of sample testing of IHP payments was inconclusive. A second round of testing showed that the program is not at high risk for issuing improper payments.

As a result of four Florida and two Gulf Coast hurricanes, FEMA issued a high level of payments in fiscal year 2005. The Department plans on extensively subjecting these payments to IPIA random sample payment testing in fiscal year 2006. If FEMA's programs are found to be at high risk, immediate actions will be taken to quantify the amount of improper payments issued, determine causes, implement corrective actions, and recover funds. The Department's Office of Inspector General has set up a new office which will exclusively examine Hurricane Katrina related payments. Additionally, the General Accounting Office is conducting an audit of purchase card payments, procedures, and controls as part of a government-wide analysis of the Federal response to Hurricanes Katrina and Rita.

Two major changes from fiscal year 2004 occurred as DHS' IPIA compliance program matured. The first change was in the definition of IPIA programs. In fiscal year 2004, an IPIA program was defined by the Future Years Homeland Security Program (FYHSP). FYHSP definitions offered consistent program reporting but proved unsuitable for IPIA sample testing as costs are allocated as a group and are not identified at the transaction level. In fiscal year 2005, DHS changed the definition of a program to Treasury Appropriation Fund Symbol (TAFS). This definition was supported by all component accounting systems at the transaction level. This change was approved by OMB and allowed for ready identification of each component's largest IPIA program.

The second major change to the Department's IPIA compliance program in fiscal year 2005 was the testing of major payment types for each component's largest program (as ranked by fiscal year 2004 disbursed dollars). Fiscal year 2004 program risk scores were based on internal control, human capital, programmatic risk and materiality of operating budget risk factors but did not consider individual payment types. Fiscal year 2005's disbursement dollar driven risk assessment reflects the use of common financial systems and payment processes to support all TAFS within a component. If sample

testing from the largest program showed a payment type to be at high risk for the issuance of improper payments, all TAFS within that component would be tested. As the reporting details show, no major payment type or program produced sizable enough errors to necessitate testing across all TAFS within any component. Major payment types tested included commercial, travel, grant, employee reimbursement, purchase card, and state and local.

Major IPIA programs were defined by exceeding \$100 million in non-payroll, non-intergovernmental annual disbursements. Programs issuing fewer disbursements were assumed to be too small to exceed OMB's \$10 million of erroneous payments reporting floor. Payroll disbursements were excluded because of their repetitive, stable nature and the extensive internal controls they are subjected to. Intergovernmental payments were excluded as they are internal payments which do not put the Federal Government, as a whole, at risk.

Looking to fiscal year 2006, the Department expects to enter a fully mature phase of its IPIA program. This phase will feature comprehensive component testing of all programs issuing more than \$100 million of IPIA covered disbursements, independent payment sample testing, and strengthened internal control audit testing. Finally, extra controls may need to be put in place for components that switch to a new financial system or are restructured.

To further identify and recover improperly disbursed funds and to comply with Section 831 of the *Defense Authorization Act for Fiscal Year 2002*, the Department hired an independent contractor who conducted recovery audit work at two major components, ICE and CBP. This recovery audit work over all fiscal year 2004 disbursements identified more than \$2.1 million of improper payments and recovered more than \$1.2 million. DHS is considering expanding recovery audit work to other components in fiscal year 2006.

## REPORTING DETAILS

### I. Risk Assessment Process and IPIA Risk-Susceptible Programs

#### Risk Assessment Process

The Department uses Treasury Appropriation Fund Symbol (TAFS) to define IPIA programs. Within a component, the same financial systems and payment processes are shared across TAFS. This sharing of systems and people means that sample testing of the largest TAFS provides good risk assessment information on smaller TAFS. An exception would be a TAFS that had some unique payment process that was not tested under the largest TAFS. Each component tested their largest TAFS and calculated the resulting error amounts and rates. This information was used to judge the risk to smaller TAFS. All risk assessments were component self-assessed.

Independently assessed data came from two sources. In the second half of the year at CBP and ICE, Horn & Associates Inc. carried out contract recovery audit work. This work has supported the conclusions reached in the component self-assessments. In May of 2005, the Department's Office of Inspector General (OIG) issued report OIG-05-20, *Audit of FEMA's Individuals and Households Program (IHP) in Miami-Dade County, Florida, for Hurricane Frances*. This report listed improper payment findings including problems with training of key personnel, estimation and verification of losses, and payment system edits. Though some of these problems were unique to the multi-hurricane ravaged condi-

tions which occurred in Florida, many findings applied nationally. The findings listed in the report and an inconclusive first round of IPIA sample payment testing resulted in a second, roughly three times larger, second round of sample testing for the FEMA program. This second round of testing found that the IHP did not exceed OMB's \$10 million and 2.5% thresholds for fiscal year 2004 disbursements.

### IPIA Risk-Susceptible Programs

The Department has no programs which had improper payment information formerly reported under Section 57 of OMB Circular A-11. The Department has no programs which tested as at high risk for the issuance of improper payments based on sample testing of fiscal year 2004 disbursements.

At year-end, recovery audit contractor testing at ICE identified more than \$2.1 million dollars and at CBP less than \$50,000 of erroneous fiscal year 2004 payments across all programs. The recovery audit at ICE is mostly complete. An examination of telephone bills is estimated to yield around \$1 million dollars in further erroneous payments. Significant recovery audit work at CBP remains. The \$50,000 erroneous payment finding should be treated as a low estimate and not a final estimate. These audit recovery results are consistent with the self-assessed finding by ICE and CBP that their largest programs are not at high risk for issuing improper payments.

The majority of problems described in the OIG report on FEMA's Individuals and Households Program (IHP) pertain to fiscal year 2005 issued payments. FEMA has implemented many corrections suggested in the report. The IHP will continue to receive close IPIA related scrutiny and undergo independent payment review in fiscal year 2006. To date, sample payment testing has not shown the program to be at high risk for improper payments.

## **II. IPIA Statistical Sampling Process**

Each component, except FEMA for reasons described earlier, identified their largest program based on the amount of fiscal year 2004 disbursements issued, excluding payroll and intergovernmental payments. If the largest program issued at least \$100 million of non-excluded payments, the component completed a sampling for each major payment type. Per OMB Guidance, sample sizes were at least 126 payments supporting at a 90% confidence interval error rates up to 5.5%. Major payment types tested included: travel, employee reimbursements, commercial payments, grants, and contracts.

The projected error rate was the actual error rate from the sample. The projected error amount was the actual error amount multiplied by the disbursement population total divided by the sample disbursement total rounded. Thus, for example, if 2% of all disbursement dollars were sampled, the projected error amount for that TAFS was 50 times the actual error amount from the sample rounded. Any programs or segments found to issue anywhere near the \$10 million and 2.5% OMB defined IPIA reporting thresholds had to either complete a larger, more precise sample or develop and implement corrective action plans with out year estimates of progress. Errors below \$10 were ignored so long as, collectively, they did not exceed \$100.

## **III. Corrective Action Plans**

The lack of an identified high risk IPIA program meant that no formal corrective action plans were requested or completed by any component.

FEMA did implement several of the recommendations from the DHS OIG report on the Individuals and Households Program. Implemented corrections included: improving inspection guidelines, overhauling loss calculation methodology, improving loss documentation standards, ensuring that inspectors do not live in inspection areas, and improving pre- and post-payment financial system edits.

#### IV. Sample Test Results

All sample sizes were 126 except for FEMA's 2nd round of testing which had a sample size of 400. The OIG and FLETC did not have a TAFS program which exceeded \$100 million in IPIA eligible fiscal year 2004 disbursements. Consequently, these two components did not perform IPIA sample payment testing.

Component	TAFS	Payment Type	% Error Rate (by \$'s)	Sample Error Amount	Disbursement Total for Type	Projected Error Amount
CBP	70X0503	Commercial	0.0%	\$1,382	\$481,500,000	\$84,900
	70X0503	Travel/Employee Reimbursements	0.1%	\$347	\$30,900,000	\$26,100
FEMA	70X0702	Travel	0.1%	\$229	\$70,300,000	\$69,900
	70X0702	Commercial	0.0%	\$0	\$262,300,000	\$0
	70X0702	IHP (1 <sup>st</sup> round)	3.5%	\$5,100	\$886,200,000	\$31,321,000
	70X0702	IHP (2 <sup>nd</sup> round)	0.8%	\$3,976	\$886,200,000	\$6,986,000
ICE	7040540	Contract	0.2%	\$6,264	\$359,100,000	\$753,900
	7040540	Travel/Employee Reimbursements	5.3%	\$3,575	\$48,000,000	\$2,550,000
	70X5088	Contract	0.1%	\$7,559	\$254,400,000	\$150,400
SLGCP	70X0511	Grant	0.0%	\$0	\$570,500,000	\$0
	70X0511	Commercial	0.0%	\$257	\$51,800,000	\$300
TSA	70X0550	Contract	0.7%	\$59,403	\$485,500,000	\$3,300,000
	70X0550	Travel	1.3%	\$5,672	\$63,700,000	\$842,000
USCG	7040610	Contract	0.0%	\$0	\$321,000,000	\$0
	7040610	Travel	0.8%	\$446	\$134,000,000	\$1,000,000
	7040610	All Other	0.0%	\$0	\$221,000,000	\$0
USSS	70X0400	DC Pension	0.0%	\$0	\$126,000,000	\$0
	7040400	Commercial	0.0%	\$0	\$110,000,000	\$0

#### V. Recovery Audit Efforts

Recovery audit contract work is underway at ICE and CBP. The contractor is Horn & Associates, Inc. All fiscal year 2004 payments are under review. No payment groups are excluded. Collection efforts are carried out by component staff after the contractor has identified a set of payments as improper

and component staff have concurred. Collections efforts center on letters stating the facts behind each improper payment and demanding repayment.

An analysis of ICE improper payments has identified the following sources of error: human error, receipt of original invoices followed by faxed copies from program offices, multiple payment databases, and inadequate systems validations. All of these issues are currently being addressed by ICE management. CBP is too early in the recovery audit to meaningfully identify error patterns.

Component	Amount Subject to Review	Actual Amount Reviewed and Reported	Amounts Identified for Recovery	Amount Identified/ Actual Amount Reviewed	Amounts Recovered CY	Amounts Recovered PY(s)
ICE	\$2,006,600,000	\$2,006,600,000	\$2,157,000	\$1,700,000,000	\$1,200,000	\$0
CBP	\$1,225,700,000	\$1,225,700,000	\$34,000	\$777,000	\$7,000	\$0

## VI. Holding Management Accountable

Supporting the President’s Management Agenda (PMA) is a critical financial management goal of the Department. The Under Secretary for Management oversees implementation of the PMA and reports regularly to the Secretary. Given quarterly grading by OMB under the Erroneous Payments PMA Program Initiative, management is constantly under pressure to demonstrate progress in stopping and recovering improper payments.

## VII. Information Systems Support

The Department has not set formal improper payment reduction targets as no program has been identified as at high risk for issuing improper payments. Components, particularly FEMA, have been successful in implementing improved improper payment edits using their existing financial systems. No specific IPIA related financial systems requests have been made to Congress.

## VIII. Regulatory Barriers Which May Limit Corrective Action Plan Implementation

This standard is not yet applicable to the Department as there are no IPIA corrective action plans to limit.

## IX. Additional Comments

In fiscal year 2005, the Department succeeded in carrying out improper payment sample payment testing on each component’s largest program. The results indicate that though several million dollars of improper payments are issued each year, no program exceeds the OMB defined IPIA reporting thresholds of \$10 million dollars and 2.5%. This testing consisted primarily of component self-assessments supplemented by independent review by the DHS Office of Inspector General and a recovery audit contractor. In fiscal year 2006, the Department will expand the use of independent review and expects to become fully IPIA compliant.

## EFFECTS OF HURRICANES KATRINA AND RITA

The devastating effect of the Hurricanes Katrina and Rita on the Gulf States was unparalleled in recent history. The loss of life and property were unimagined until this time. The U.S. Government proceeded to create two supplemental appropriations for the Federal Emergency Management Agency totaling \$60 billion to meet immediate needs arising from the consequences of Hurricane Katrina for fiscal year ending September 30, 2005, and for other purposes. The main DHS components to be affected by the hurricane are FEMA and the USCG. Other components that had minor costs related to Katrina were CBP, TSA and ICE.

### FEMA

These appropriations included \$100 million that has been transferred to the Emergency Preparedness and Response, Public Health Programs and \$15 million that has been transferred to the Departmental Management and Operations, Office of Inspector General. In October 2005, Public Law 109-88 provided that \$750 million of these funds is to be transferred to the Disaster Loan Program. In fiscal year 2005, FEMA obligated \$15.8 billion and expended \$3.5 billion of these appropriated funds.

#### Disaster Relief Fund

##### Statement of Budgetary Resources (in millions)

#### Budgetary Resources

Budget Authority	\$68,542
Net Transfers, current year	(115)
Unobligated balance, brought forward	713
Recoveries of prior year obligations	<u>548</u>
Total Budgetary Resources	<u><u>\$69,688</u></u>

#### Status of Budgetary Resources

Obligations Incurred, Direct	\$23,159
Unobligated balance, available	46,358
Unobligated balance, unavailable	<u>171</u>
	<u><u>\$69,688</u></u>

Obligated balance, net Oct 1	\$6,385
Obligated balance, net, end of period:	
Accounts Receivable	(1)
Undelivered Orders	16,255
Accounts Payable	<u>895</u>
Obligated balance, net, end of period	<u><u>\$17,149</u></u>

#### Outlays

Disbursements	\$11,846
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**Disaster Relief Emergency Supplemental Appropriations (in millions)**

Appropriated (on 9/5/2005)	\$10,000
Appropriated (on 9/12/2005)	50,000
Transferred	(115)
Net appropriation	<u>\$59,885</u>
Obligated	\$15,845
Less: Expended	3,514
Unliquidated obligations at 9/30/05	<u>\$12,331</u>

	Obligated	Expended	Unliquidated
Katrina Florida	\$13	\$1	\$12
Katrina Louisiana	8,536	2,405	6,132
Katrina Mississippi	4,348	566	3,782
Katrina Alabama	1,401	97	1,304
Rita Texas	728	229	499
Rita Louisiana	499	173	325
States with Katrina Evacuees	320	43	277

**COAST GUARD**

Hurricanes Katrina and Rita have resulted in an unprecedented number of oil spills to navigable waters and adjoining shorelines. OSLTF funds have not been expended thus far in response to this disaster. The \$255 million in Stafford Act funding for pollution response falls short of the total estimated costs of continued Federal cleanup response, as well as the economic and environmental damage compensation anticipated. The USCG is working with FEMA, EPA and the Department of Homeland Security to ensure either continued availability of Stafford Act funding, or replacement of Stafford Act funding with something similar that shields the OSTLF from Hurricane Katrina and Rita impacts.

Various categories of USCG PP&E assets have suffered damage from Hurricane Katrina along the Gulf Coast. Damage assessments are continuing to be received. Some damage assessments have been completed, and to date have resulted in thirty-three (33) buildings, structures, and general purpose property being destroyed with a total net book value of \$886,702. The estimated cost to rebuild or replace these damaged assets is over \$14.2 million dollars. Damage assessments are on-going, and as the USCG receives them, additional adjustments to specific assets will be required. In addition to destroyed assets, numerous categories of USCG PP&E buildings and structures ranging from USCG Stations, Air Stations, Aids to Navigation (Range Lights), Storage Buildings, Marine Safety Units, Integrated Support Commands, Sector Commands, Recruiting Offices, other miscellaneous assets have suffered damage, and although operational in some capacity, will require repairs or potential replacement once assessments are complete. The USCG is currently compiling projected resource requirements for all assets affected by Katrina and Rita and will be requesting supplemental funding.



# Appendices

Part IV

## Appendix A - References and Resources

**T**his report satisfies the reporting requirements of the following laws:

- Department of Homeland Security Financial Accountability Act of 2004  
<http://thomas.loc.gov>
- Chief Financial Officers Act of 1990  
<http://govinfo.library.unt.edu/npr/library/misc/cfo.html>
- Federal Managers' Financial Integrity Act of 1982  
<http://www.whitehouse.gov/omb/financial/fmfia1982.html>
- Government Performance and Results Act of 1993  
<http://www.whitehouse.gov/omb/mgmt-gpra/gplaw2m.html>
- Government Management Reform Act of 1994  
<http://thomas.loc.gov>
- Clinger-Cohen Act of 1996  
<http://irm.cit.nih.gov/policy/itmra.html>
- Reports Consolidation Act of 2000  
<http://thomas.loc.gov>
- Accountability of Tax Dollars Act of 2002  
<http://thomas.loc.gov>

This report was compiled and submitted in accordance with:

Office of Management and Budget (OMB) Circular No. A-11 *Preparation, Submission, and Execution of the Budget*;

<http://www.whitehouse.gov/omb/circulars/a11/04toc.html>

and OMB Circular No. A-136 *Financial Reporting Requirements*.

<http://www.whitehouse.gov/omb/circulars/a136/a136.pdf>

## Appendix B - List of Department Websites

**T**he Department's website is located at [www.dhs.gov](http://www.dhs.gov). Information on the following Directorates and Components can be found there. Other specific sites are listed where applicable.

### DIRECTORATES

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Information Analysis and Infrastructure Protection Directorate

Border and Transportation Security Directorate

- Customs and Border Protection – [www.cbp.gov](http://www.cbp.gov)
- U.S. Immigration and Customs Enforcement – [www.ice.gov](http://www.ice.gov)
- Transportation Security Administration – [www.tsa.gov](http://www.tsa.gov)
- Federal Law Enforcement Training Center – [www.fletc.gov](http://www.fletc.gov)

Emergency Preparedness and Response Directorate

- Federal Emergency Response Agency – [www.fema.gov](http://www.fema.gov)

Science and Technology Directorate

Management Directorate

### COMPONENTS

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Office of the Secretary

U.S. Coast Guard – [www.uscg.mil](http://www.uscg.mil)

U.S. Secret Service – [www.secretservice.gov](http://www.secretservice.gov)

U.S. Citizenship and Immigration Services – [www.uscis.gov](http://www.uscis.gov)

Office of State and Local Government Coordination and Preparedness

Office of Inspector General

## Appendix C - Glossary of Acronyms

- AAR** – Exercise After-Action Report
- ACE** – Automated Commercial Environment
- ACS** – Automated Commercial System
- AMO** – Air Marine Operations or Aviation Maintenance Officer
- AMTP** – Accreditation Manager Training Program
- ARTF** – Aquatic Resource Trust Fund
- AtoN** – Aids to Navigation
- ATS** – Automated Targeting System
- BGP** – Border Gateway Protocol
- BIO** – Bio-Surveillance
- BPD** – Bureau of Public Debt
- BSIR** – Biannual Strategy Implementation Report
- BTS** – Border and Transportation Security
- CAG** – Collisions, Allisions, and Groundings
- CAO** – Chief Administration Officer
- CBP** – Customs and Border Protection
- CBPAS** – Customs and Border Protection Agriculture Specialists
- CBRNE** – Chemical, Biological, Radiological, Nuclear, and Explosives terrorism
- CERCLA** – Comprehensive Environmental Response, Compensation and Liability Act
- CERTS** – Cargo Enforcement Reporting and Tracking System
- CFO** – Chief Financial Officer
- CFR** – Code of Federal Regulations
- CGFAA** – Cerro Grande Fire Assistance Act
- CHCO** – Chief Human Capital Officer
- CI/KR** – Critical Infrastructure and Key Resources
- CIIE** – Critical Infrastructure Identification and Evaluation
- CIO** – Chief Information Officer
- CIOP** – Critical Infrastructure Outreach & Partnerships
- CM** – Compliance Measurement program

**COG** – Continuity of Government  
**COOP** – Continuity of Operations  
**COTS** – Commercial Off-The-Shelf  
**CP** – Campaign Protection  
**CPO** – Chief Procurement Officer  
**CS** – Cyber Security  
**CSI** – Container Security Initiative  
**CSI-A** – Customer Satisfaction Index for Aviation  
**CSID** – Centralized Scheduling Information Desk  
**CSRS** – Civil Service Retirement System  
**C-TPAT** – Customs-Trade Partnership Against Terrorism  
**CWAs** – Chemical Warfare Agents  
**DACS** – Deportable Alien Control System  
**DADLP** – Disaster Assistance Direct Loan Program  
**DDOS** – Distributed Denial of Service  
**DETER** – Defense Technology Experimental Research  
**DISA** – Defense Information Systems Agency  
**DNDO** – Domestic Nuclear Detection Office  
**DOC** – Department of Commerce  
**DoD** – Department of Defense  
**DOJ** – Department of Justice  
**DOL** – Department of Labor  
**DP** – Domestic Protectees  
**DRF** – Disaster Relief Fund  
**DRO** – Detention and Removal Office  
**ECSAP** – Electronic Crimes Special Agent Program  
**EDS** – Explosives Detection Systems  
**EEG** – Exercise Evaluation Guide (s)  
**EEZ** – Exclusive Economic Zone  
**eMerge<sup>2</sup>** – Electronically Managing Enterprise Resources for Government Efficiency and Effectiveness  
**EML** – Environmental Measurements Lab  
**EP&R** – Emergency Preparedness and Response  
**EPA** – Environmental Protection Agency

**FAA** – Financial Accountability Act  
**FAIR** – Federal Activities Inventory Reform  
**FAMS** – Federal Air Marshal Service  
**FASAB** – Federal Accounting Standards Advisory Board  
**FBSA** – Federal Boat Safety Act  
**FCRA** – Federal Credit Reform Act of 1990  
**FECA** – Federal Employees' Compensation Act  
**FEMA** – Federal Emergency Management Agency  
**FERS** – Federal Employees Retirement System  
**FFMS** – Federal Financial Management System  
**FFV** – Foreign Fishing Vessel  
**FI** – Financial Investigations  
**FLETA** – Federal Law Enforcement Training Accreditation  
**FLETC** – Federal Law Enforcement Training Center  
**FOC** – Full Operational Capability  
**FP/FM** – Foreign Protectees and Foreign Missions  
**FPS** – Federal Protective Service  
**FTE** – Full-time employees  
**FYHSP** – Fiscal Year Homeland Security Program  
**GAAP** – Generally Accepted Accounting Procedures  
**GAO** – Government Accountability Office  
**GETS** – Government Emergency Telecommunications  
**GIS** – Geographic Information System  
**GSA** – General Services Administration  
**GSM** – Global System for Mobile  
**HAZMAT** – Hazardous Materials  
**HHS** – Health and Human Services  
**HLS EA** – Homeland Security Enterprise Architecture  
**HSAS** – Homeland Security Advisory System  
**HSC** – Homeland Security Council  
**HSDN** – Homeland Security Data Network  
**HSEEP** – Homeland Security Exercise and Evaluation Program  
**HSIN** – Homeland Security Information Network

**HSIN-CS** – Homeland Security Information Network – Cyber Security

**HSOC** – Homeland Security Operations Center

**IAFIS** – Integrated Automated Fingerprint Identification System

**IAIP** – Information Analysis and Infrastructure Protection Directorate

**ICC** – Internal Control Committee

**ICE** – U.S. Immigration and Customs Enforcement

**ICS** – Incident Command System

**IDENT** – Automatic Biometric Identification System

**IDI** – Injured Domestic Injuries

**IED** – Improvised Explosive Device

**IFMIS** – Integrated Financial Management Information System

**IHP** – Individual Households Program

**IPIA** – Improper Payments Information Act

**ISIP** – Initial Strategy Implementation Plan

**ITDS** – International Trade Data System

**KSD** – Known Shipper Database

**LLNL** – Lawrence Livermore National Lab

**LMR** – Living Marine Resources

**MANPADS** – Man-Portable Air Defense System

**MBL** – Maritime Boundary Line

**MD** – Management Directives

**MEP** – Marine Environmental Protection

**MISLE** – Marine Information for Safety and Law Enforcement database

**MRS** – Military Retirement System

**NADB** – National Asset Data Base

**NBIS** – National Bio-Surveillance Integration System

**NCIC** – National Crime Information Center

**NCM** – Non-Commercial Maritime

**NCS** – National Communications System

**NCSD** – National Cyber Security Division

**NDMS** – National Disaster Medical System

**NEMB-CAP** – National Emergency Management Baseline Capability Assessment Program

**NEMIS** – National Emergency Management Information System

**NEPA** – National Environmental Policy Act of 1969

**NFIP** – National Flood Insurance Program

**NFPA** – National Fire Protection Association

**NIEM** – National Information Exchange Model

**NII** – Non-Intrusive Inspection

**NIMS** – National Incident Management System

**NISAC** – National Infrastructure Simulation and Analysis Center

**NLETS** – National Law Enforcement Telecommunication Systems

**NOAA** – National Oceanographic and Atmospheric Administration

**NS/EP** – National Security/Emergency Preparedness Telecommunications

**NSAIS** – National Surveillance Activity Information Sharing

**NSTS** – National Strategy for Transportation Security

**OAC** – Office of Accreditation

**ODP** – Office of Domestic Preparedness

**OIG** – Office of the Inspector General

**OJP** – Office of Justice Programs

**OM&S** – Operating Materials and Supplies

**OMB** – Office of Management & Budget

**OPA** – Oil Pollution Act of 1990

**OPEB** – Other Post Employment Benefits

**OPM** – Office of Personnel Management

**ORB** – Other Retirement Benefits

**ORBBP** – Operational Requirements-Based Budgeting Program

**OSLTF** – Oil Spill Liability Trust Fund

**PA** – Protective Actions

**PA&E** – Program, Analysis & Evaluation

**PAR** – Performance and Accountability Report

**PART** – Program Assessment Rating Tool

**PAS** – Performance Analysis System

**PCB** – Polychlorinated biphenyls

**PD** – Presidential Determination

**PI** – Protective Intelligence

**PIADC** – Plum Island Animal Disease Center

**PMA** – President’s Management Agenda  
**PMO** – Project Management Office  
**POE** – Ports of Entry  
**PP&E** – Property, Plant and Equipment  
**PRD** – Personal Radiation Detectors  
**PSD** – Protective Security Division  
**PSU** – Port Security Unit  
**PTS** – Port Tracking System  
**PWCS** – Ports, Waterways, and Coastal Security  
**QMI** – Quarantine Material Interception  
**RCRA** – Resource Conservation and Recovery Act  
**RFID** – Radio Frequency Identification  
**RSSI** – Required Supplementary Stewardship Information  
**S&T** – Science and Technology Directorate  
**SAM** – Shore Asset Management System  
**SAP** – Systems, Applications, Products  
**SAR** – Search and Rescue  
**SBR** – Statement of Budgetary Resources  
**SCNP** – Statement of Net Position  
**SFFAS** – Statement of Federal Financial Accounting Standard  
**SLGC** – Office of State and Local Government Coordination  
**SLGCP** – Office of State and Local Government Coordination and Preparedness  
**SNS** – Strategic National Stockpile  
**SOF** – Statement of Funding  
**SORTS** – Status of Resources and Training System  
**SOW** – Statement of Work  
**SQTS** – Student Quality of Training Survey  
**SRC** – Science and Technology Requirements Council  
**SSI** – Sensitive Secure Information  
**TAFS** – Treasury Appropriation Fund Symbol  
**TAP** – Threat Awareness Portfolio  
**TECS** – Treasury Enforcement Communication System  
**TIC** – Toxic Industrial Chemical

- TIM** – Toxic Industrial Material
- TSA** – Transportation Security Administration
- TSC** – Terrorist Screening Center
- TSCA** – Toxic Substances Control Act
- TSOP** – Transportation Security Operations Plan
- UAV** – Unmanned Ariel Vehicle
- USCG** – United States Coast Guard
- USCIS** – U.S. Citizenship and Immigration Service
- USFA** – U.S. Fire Administration
- USR** – Urban Search and Rescue
- UST** – Underground Storage Tanks
- VWP** – Visa Waiver Program
- WCF** – Working Capital Fund
- WMD** – Weapons of Mass Destruction
- WPS** – Wireless Priority Service
- WRAPS** – Worldwide Refugee Admissions Processing System
- WYO** – Write Your Own
- XML** – Extensible Markup Language

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U.S. Department of Homeland Security  
Management / CFO - Program Analysis and Evaluation  
Washington, DC 20528



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