



# Performance and Accountability Report

Fiscal Year 2006



Homeland  
Security



# Homeland Security

Additional copies of the Department of Homeland Security's Performance and Accountability Report for Fiscal Year 2006 are available by writing to:

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

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## Message from the Secretary

November 15, 2006



I am pleased to provide the Department of Homeland Security's Performance and Accountability Report for fiscal year 2006. The report provides a clear view of the Department's achievements under focused goals to preserve our freedoms and protect our homeland.

For almost four years now, the Department of Homeland Security has led a national effort to protect our country and our citizens from terrorist and natural threats. Realizing that we can reduce risk, but not completely eliminate it, we pursued our goals with a sense of urgency and daily diligence to minimize risk and ensure our nation can respond and recover quickly should an incident occur.

First, our goals optimize our security, but not security at any price. Our security strategy promotes Americans' freedom, privacy, prosperity, and mobility. Second, our goals drive continuous improvement as terrorists will not relent, and natural disasters are inevitable. Third, we must be an effective steward of public resources – setting and meeting priorities, sound financial management, a commitment to measure and report performance, 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 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. We draw on the strength of our network of partners and 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.

This report provides detailed accomplishments of 2006. Some of the highlights include:

- Although over 600 million people fly each year, the Transportation Security Administration was able to perform necessary passenger screening operations preventing and protecting against adverse actions while attaining a new high in customer satisfaction. Customer Satisfaction reached 81%, a new high for screening operations at the nation's security checkpoints.
- Almost 7 million cargo containers arrive and are offloaded at U.S. seaports each year. The U.S. Customs and Border Protection increased the percent of shipping containers processed through its Container Security Initiative prior to entering U.S. ports from 48% in FY 2004 to 82% in FY 2006. This significantly decreases the risk of terrorist materials entering our country while providing processes to facilitate the flow of safe and legitimate trade and travel from more foreign ports.
- 185,944 aliens illegally in the United States were removed by U.S. Immigration and Customs Enforcement pursuant to an immigration judge issuing an order for removal. In FY 2006 the quarterly ratio of removals to orders increased from 109% last year to an estimated 124% this year. Illegal aliens are being removed in accordance with orders more rapidly than in the past.
- In a major initiative of the Secure Border Initiative, the Department ended the practice of "catch and release" along the southern and northern border. In the past we apprehended illegal aliens from countries other than Mexico and then released them on their own recognizance. Often these illegal aliens failed to return for their hearing. Ending this practice and replacing it with "catch and return" is a breakthrough in deterring illegal immigration on the southern border. Last year, DHS detained 34 percent of non-Mexican illegal aliens apprehended along the southern border. Currently 99 percent are being detained.

- 51,249 individuals were trained by the Federal Law Enforcement Training Center, providing them skills needed to perform law enforcement duties helping secure our nation.
- \$485 million in competitive grants were provided to fire departments and emergency responders to strengthen the Nation's overall level of preparedness and ability to respond to fire and fire related hazards.
- The five-year average number of chemical spills and oil spills greater than 100 gallons declined 11.9% from the FY 2005 level, indicating continuing improved performance of the U.S. Coast Guard in preventing discharges of chemicals or oil into U.S. navigable waters.
- The President, Vice President, visiting world leaders and other protectees of the U.S. Secret Service arrived and departed safely 100% of the time at more than 6,275 travel stops. The Secret Service continues to perform flawlessly by protecting our key national leaders without incident ensuring our top elected officials can perform the duties of their office.
- More than 6 million applications were processed by the U.S. Citizenship and Immigration Services which also conducted the naturalization of approximately half a million new citizens.

These front line results are backed by efforts to improve the Department overall. The President's Management Agenda continues to guide efforts to make programs more efficient, effective and results-oriented. Work remains to fully meet all standards of the President's agenda which becomes more stringent each year. This year's report again discusses how we are fulfilling the President's Management Agenda.

This report identifies material internal control weaknesses and actions the agency is taking to resolve them. 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 financial and performance data completeness and reliability, are provided in the Management Assurances section of this report.

Moving forward together with our partners and the public, we will continue building upon our successful foundation over nearly four years at Homeland Security. We will proceed with unyielding focus and determination.

Sincerely,

A handwritten signature in black ink, appearing to read 'Michael Chertoff', with a long horizontal stroke extending to the right.

Michael Chertoff



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# ABOUT THE FISCAL YEAR 2006 PERFORMANCE AND ACCOUNTABILITY REPORT

This report, prepared in accordance with the Reports Consolidation Act of 2000, presents the results of the Department of Homeland Security's (DHS) program and financial performance for FY 2006. It is divided into sections:

The **Secretary's Message** provides the Secretary's perspective of the Department's progress during FY 2006.

The **Management's Discussion and Analysis (MD&A)** section explains the Department's mission, goals and organization, summarizes program and financial performance, and addresses major management challenges. The MD&A also reports progress in implementing the President's Management Agenda.

The **Performance Section** assesses progress in achieving the Department's goals as presented in the Strategic Plan and Performance Budget for FY 2006.

The **Financial Section** demonstrates our commitment to effective stewardship over the funds DHS receives to carry out the mission of the Department, including compliance with relevant financial management legislation. It includes the **Independent Auditor's Report**, an independent opinion on the Financial Statements provided by the Department's Office of Inspector General (OIG), and provides the Department's **Annual Financial Statements**.

The **Other Accompanying Information** section contains the Inspector General's (IG) report on Major Management Challenges followed by the Department's response to the challenges. This section also contains information on Improper Payments and the effects of Hurricanes Katrina and Rita.

In addition, the **Appendices** contain a list of references and resources, a list of Department web sites and a glossary of acronyms and abbreviations.

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

Part I

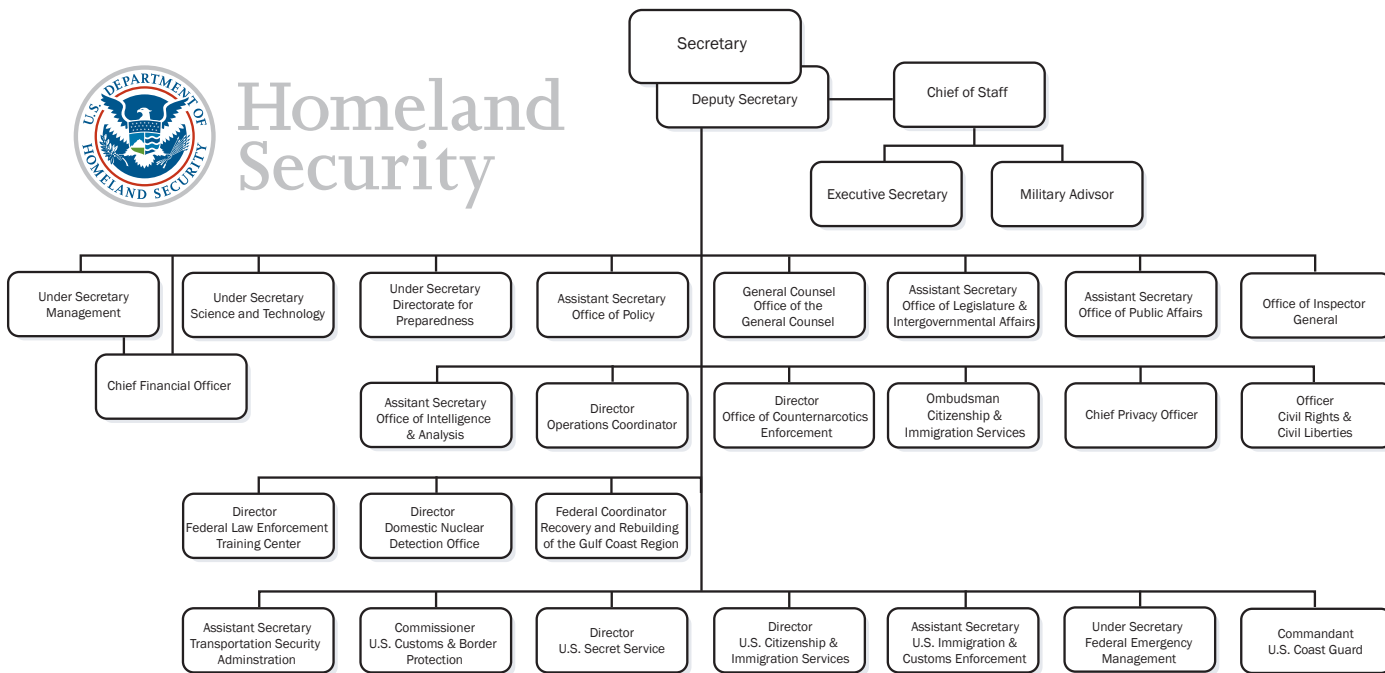
# Mission and Organizational Structure

The 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. Our mission gave us focus for the year:

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

DHS leverages resources within Federal, state, and local governments, coordinating the transition of multiple agencies and programs into a single, integrated agency focused on protecting the American people and their homeland. More than 87,000 different governmental jurisdictions at the Federal, state, and local level have homeland security responsibilities. The comprehensive national strategy develops a complementary system connecting all levels of government without duplicating effort. Homeland Security is truly a "national mission."

To accomplish the mission, in Fiscal Year 2006 the Department was organized as shown below.



NOTE: The FY 2007 Homeland Security Appropriations Bill references an integration of the Federal Emergency Management Agency (FEMA) and the Preparedness Directorate. This change was not in effect in FY 2006.



## DEPARTMENT COMPONENTS

The following list contains the major components that make up the Department of Homeland Security.

The **Office of the Secretary** oversees activities with other Federal, state, local, and private entities as part of a collaborative effort to strengthen our borders, provide for intelligence analysis and infrastructure protection, improve the use of science and technology to counter weapons of mass destruction, and to create a comprehensive response and recovery system. The Office of the Secretary includes multiple offices that contribute to the overall Homeland Security mission.

The **Science and Technology Directorate** is the primary research and development arm of the Department. It provides Federal, state and local officials with the technology and capabilities to protect the homeland.

The **Preparedness Directorate** works with state, local, and private sector partners to identify threats, determine vulnerabilities, and target resources where risk is greatest, thereby safeguarding our borders, seaports, bridges and highways, and critical information systems.

The **Management Directorate** is responsible for procurement; human resources, information technology systems, facilities and equipment, and the identification and tracking of performance measurements.

The **Office of Chief Financial Officer** provides guidance and oversight of the Department's budget, financial management, and investment review functions to ensure funds necessary to carry out the Department's mission are obtained, allocated, and expended in accordance with the Department's priorities and relevant law and policies.

The **Office of Policy** is the primary policy formulation and coordination component for the Department of Homeland Security. It provides a centralized, coordinated focus to the development of Department-wide, long-range planning to protect the United States.

The **Office of Intelligence and Analysis** is responsible for using information and intelligence from multiple sources to identify and assess current and future threats to the United States.

The **Office of Operations Coordination** is responsible for monitoring the security of the United States on a daily basis and coordinating activities within the Department and with governors, Homeland Security Advisors, law enforcement partners, and critical infrastructure operators in all 50 states and more than 50 major urban areas nationwide.

The **Domestic Nuclear Detection Office** works to enhance the nuclear detection efforts of Federal, state, territorial, tribal, and local governments, and the private sector and to ensure a coordinated response to such threats.

The **Transportation Security Administration** protects the nation's transportation systems to ensure freedom of movement for people and commerce.

**United States Customs and Border Protection** is responsible for protecting our nation's borders in order to prevent terrorists and terrorist weapons from entering the United States, while facilitating the flow of legitimate trade and travel.

The **United States Secret Service** protects the President and other high-level officials and investigates counterfeiting and other financial crimes, including financial institution fraud, identity theft, computer fraud; and computer-based attacks on our nation's financial, banking, and telecommunications infrastructure.

The **Federal Law Enforcement Training Center** provides career-long training to law enforcement professionals to help them fulfill their responsibilities safely and proficiently.

**United States Citizenship and Immigration Services** is responsible for the administration of immigration and naturalization adjudication functions and establishing immigration services policies and priorities.

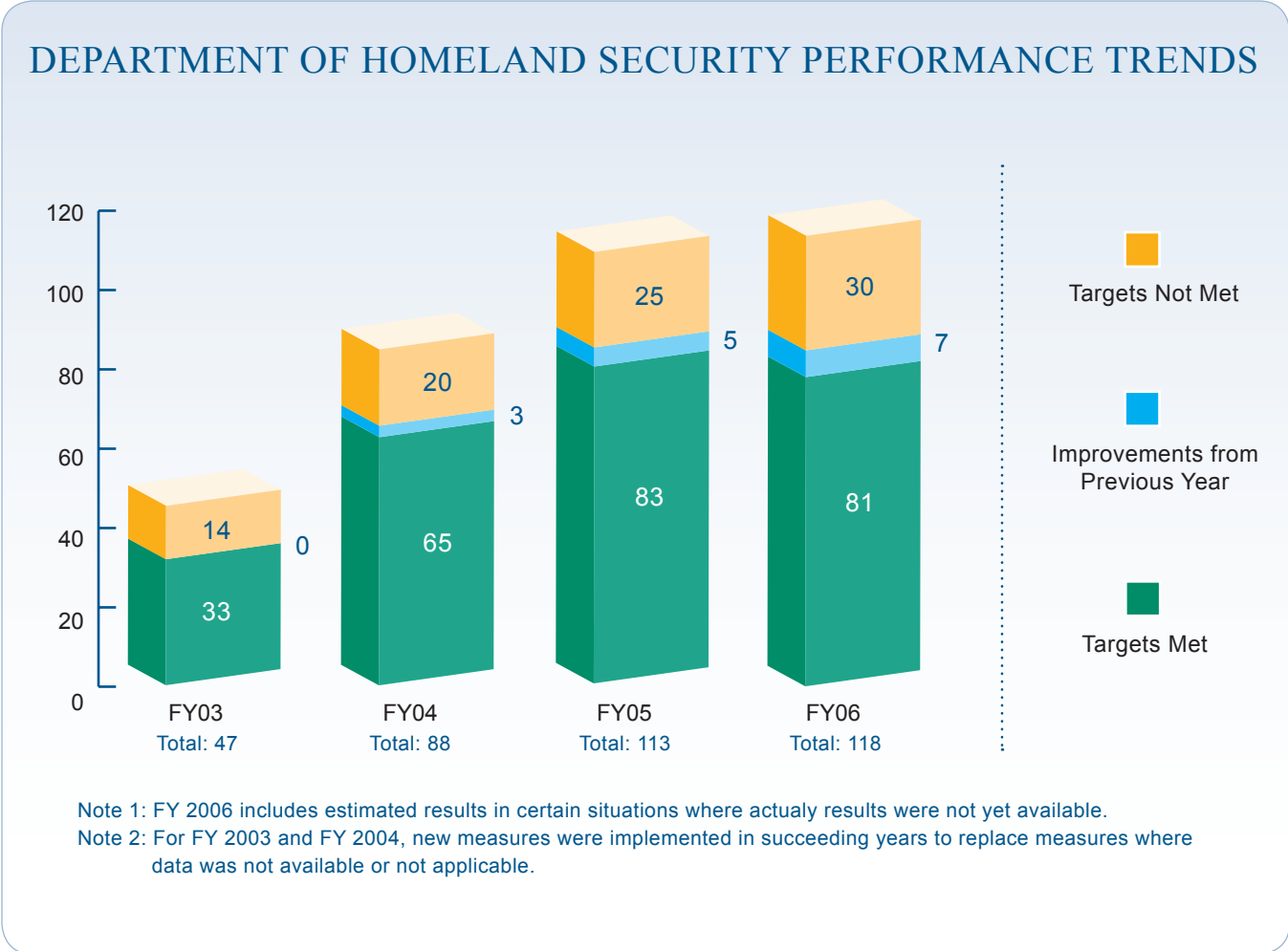
**United States Immigration and Customs Enforcement (ICE)** enforces Federal immigration and customs laws as the largest investigative arm of the Department of Homeland Security. ICE identifies criminal activities and eliminates vulnerabilities that threaten national security.

The **Federal Emergency Management Agency** prepares the nation for hazards, manages Federal response and recovery efforts following any national incident, and administers the National Flood Insurance Program.

The **United States Coast Guard** protects 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 national security.

## PERFORMANCE HIGHLIGHTS: GOALS, OBJECTIVES, AND RESULTS

The Department of Homeland Security (DHS) measures success in achieving its mission. The DHS strategic plan identifies strategic goals with objectives to achieve. DHS programs accomplish the objectives and establish performance goals with annual targets to measure progress. We established 118 specific target levels of performance under our program goals in fiscal year 2006. Each year we strive to make our targets more aggressive. During fiscal year 2006, 81 or 68.6%, of established performance measures met their target. Of those not met, there were seven (7) performance measures that did improve over their FY 2005 actuals. Details concerning our performance as compared with targets may be found in Section II, Performance Information. The following graph depicts the 4-year trend in meeting performance targets Department-wide.



The following areas of this section present highlights for each of the Department's seven strategic goals and their objectives. They identify program performance goals associated with each objective, and provide cost information along with an assessment of our performance during FY 2006. Detailed data concerning our performance is provided in Section II, Performance Information.

The seven DHS Strategic Goals are:

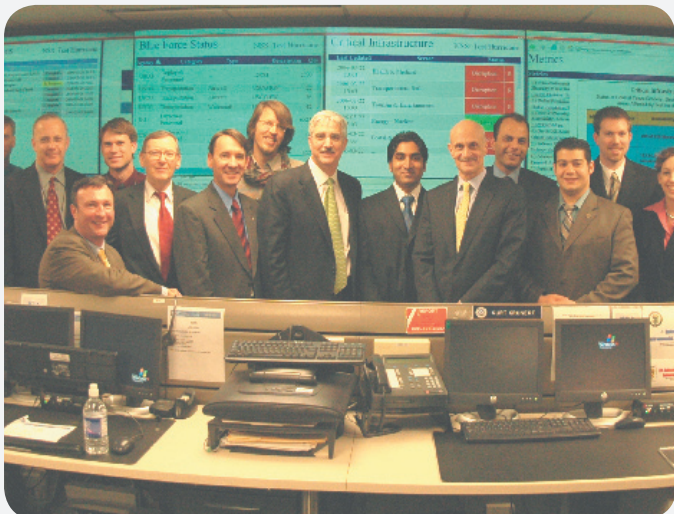
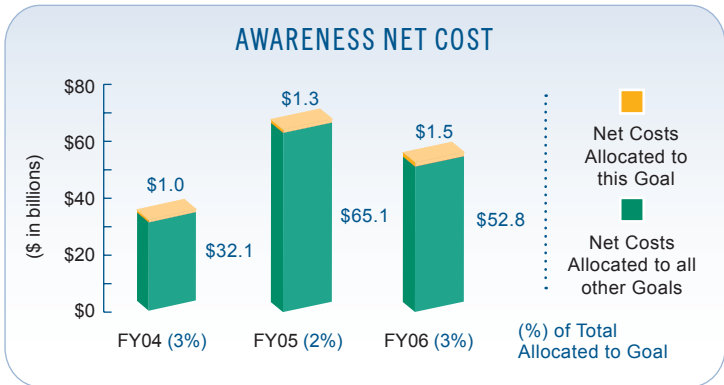
- 1. Awareness** - Identify and understand threats, assess vulnerabilities, determine potential impacts and disseminate timely information to our homeland security partners and the American public.
- 2. Prevention** - Detect, deter and mitigate threats to our homeland.
- 3. Protection** - Safeguard our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



# Performance Results by Strategic Goal

## Strategic Goal 1 Awareness

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



### Serving the Public

The DHS Common Operating Picture is a tool that has substantially increased our situational awareness since its recent deployment, supporting responses to flooding in the Northeast, the California levy threat, and other National incidents. Supported by the Homeland Security Information Network the Common Operating Picture enables Federal agencies and state and local partners to operate collaboratively using the same information. The Common Operating Picture system will be implemented nationwide for all homeland security partners, for all hazards, and for all threats.

**T**o fully support this strategic goal, we developed subordinate strategic objectives with supporting performance goals for programs. For each performance goal, we developed quantitative performance measures. Collectively, these measures assess progress in attainment of our strategic goal of Awareness.

The table below correlates our strategic objectives with the performance goals established for each objective, indicated by an objective number in the left hand column. The chart also indicates the estimated net cost of efforts to achieve the objective.

STRATEGIC GOAL 1 - AWARENESS			
STRATEGIC OBJECTIVES SUPPORTING GOAL 1			FY 06 Net Cost (in millions)
1.1 Gather, fuse, and analyze all terrorism and threat related intelligence.			\$ 168.1
1.2 Identify and assess the vulnerability of critical infrastructure and key assets.			\$ 56.8
1.3 Provide timely, actionable, accurate, and relevant information based on intelligence analysis and vulnerability assessments to homeland security partners, including the public.			\$ 127.0
1.4 Develop a Common Operating Picture for domestic situational awareness, including air, land, and sea.			\$ 862.8
<b>PERFORMANCE GOALS OF MAJOR PROGRAMS CONTRIBUTING TO OBJECTIVES</b>			<b>Detail on Page</b>
	1.3	Deter, detect, and prevent terrorist incidents by sharing domestic situational awareness through national operational communications and intelligence analysis. (Analysis and Operations)	83
1.1		100 percent distribution of sensitive threat information relative to Department of Homeland Security / Transportation Security Administration components, field elements and stakeholders. (Intelligence)	84
	1.3	Prevent known or suspected terrorists from gaining access to sensitive areas of the transportation system. (Transportation Vetting and Credentialing)	84
1.2		Protect the Nations high risk and most valued critical infrastructure and key resources (CI/KR) by characterizing and prioritizing assets, modeling and planning protective actions, building partnerships, and issuing targeted infrastructure protection grants. (Infrastructure Protection)	125

NOTE 1: The Net Cost measures the cost of supporting that entire strategic objective, not just the performance goal(s) identified in the table.

NOTE 2: Programs whose primary contribution is to this Strategic Objective are reported in this table. Strategic Objective 1.4 is supported by other Programs whose primary contribution is to other Strategic Objectives.

NOTE 3: Net Costs for a strategic objective do not directly correlate with the budget because many capabilities funded in the budget address multiple strategic objectives and because of the differences in how budgeting (obligational accounting) and accrual accounting allocate costs.

## HIGHLIGHTS

Some of the key performance measures used to gauge success in achieving the goal of Awareness are highlighted below. These measures illustrate some of our significant accomplishments during FY 2006 in achieving Awareness goals and objectives.

The Department of Homeland Security uses a risk-based approach to identify preventive and protective steps that increase security, and in turn, reduces the risk of harm to the Homeland. A quantifiable overall measurement of risk reduction would

be an ideal measure; however, there is not a straightforward way of calculating total risk reduction to all aspects of our Homeland at this time. Yet, the measure below shows the Department's progress in addressing risk reduction by increasing Awareness.

- **Improve real-time homeland security information and situational awareness through sharing and collaboration.**

Measure: *Percent of Federal, State and local agencies that maintain connectivity with the Homeland Security Operations Center (HSOC) via Homeland Security Information Network (HSIN) and participate in information sharing and collaboration concerning infrastructure status, potential threat and incident management information.* (Target Not Met) (See Page 83)

The HSOC serves as the nation's nerve center for information sharing and domestic incident management - dramatically increasing the vertical coordination between Federal, state, territorial, tribal, local, and private sector partners. Our ability to gather, analyze and disseminate information in a timely manner is key to successfully defending our homeland. The HSOC provides critical information to those who need it to prevent terrorist attacks, reduce vulnerability to attacks and disastrous acts of nature, minimize the damage to critical infrastructure, and assist in the response and recovery from such incidents. Although we did not meet our target, we made significant progress over FY 2005 results and will continue to set high targets for achievement.

- In addition, DHS activated in May 2006, the Common Operating Picture (COP) which is a display of relevant information that is derived from a Common Operating Database (COD) and shared by several agencies and organizations. The COP/COD system is a situational awareness tool that can be modified for the strategic, operational and tactical levels and is active in the National Operations Center. As part of an incrementally phased development effort, the Department's COP/COD system initially focused on the 2006 hurricane season and has been implemented in selected Department offices and inter-agency operation centers.

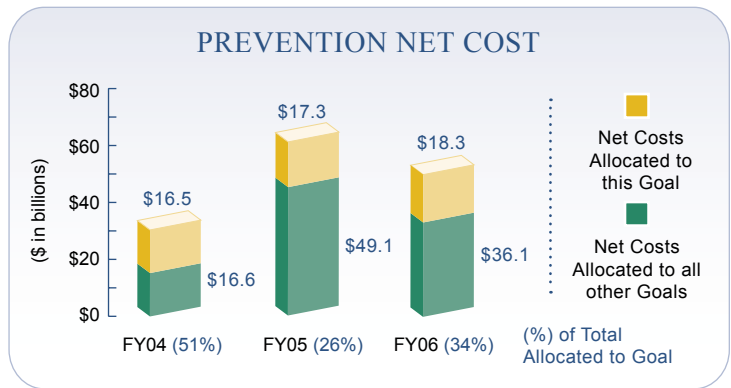
## FUTURE STEPS

**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 the ability to act on 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 can be taken. The Homeland Security Information Network (HSIN) will be expanded to additional jurisdictions to provide operational information and communications pertaining to domestic incident management. The Department will form a National Operations Center, consolidating functions from the Homeland Security Operations Center, the Interagency Advisory Council, and the Federal Emergency Management Agency. HSIN will continue to provide operational capabilities for the Command Center and the White House Situation Room, and will remain the single national level hub pertaining to domestic incident management across Emergency Operations Centers at the Federal, State, US Territories, local, private, and public domains to help detect, prevent, and deter terrorists. The Common Operating Picture and Database system will be implemented nationwide for all homeland security partners, for all hazards, and for all threats.

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.



## Serving the Public

Recently published air cargo security rules help prevent the use of air cargo as a means of attacking aircraft. The rules mark the first substantial changes to air cargo regulations since 1999, and represent a joint government-industry vision of an enhanced security baseline. These new measures will be enforced by an expanded force of air cargo inspectors, who will be stationed at the 102 airports where 95 percent of domestic air cargo originates.

**T**o fully support this strategic goal, we developed subordinate strategic objectives with supporting performance goals for programs. For each performance goal, we developed quantitative performance measures. Collectively, these measures assess progress in attainment of our strategic goal of Prevention.

The table below correlates our strategic objectives with the performance goals established for each objective, indicated by an objective number in the left hand column. The chart also indicates the estimated net cost of efforts to achieve the objective.



STRATEGIC GOAL 2 - PREVENTION				
STRATEGIC OBJECTIVES SUPPORTING GOAL 2				FY 06 Net Cost (in millions)
2.1 Secure our borders against terrorists, means of terrorism, illegal drugs and violations of trade and immigration laws.				\$ 7,928.6
2.2 Enforce trade and immigration laws.				\$ 3,184.8
2.3 Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				\$ 2,884.6
2.4 Coordinate national and international policy, law enforcement, and other actions to prevent terrorism.				\$ 925.1
2.5 Strengthen the security of the Nations transportation systems.				\$ 3,489.7
2.6 Ensure the security and integrity of the immigration system.				\$ -3.4
<b>PERFORMANCE GOALS OF MAJOR PROGRAMS CONTRIBUTING TO OBJECTIVES</b>				<b>Detail on Page</b>
2.1	2.1	2.4	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. (Border Security Inspections and Trade Facilitation at Ports of Entry)	85
2.1	2.1	2.3	To gain operational control of the U.S. border in areas deemed as high priority for terrorist threat potential or other national security objectives. (Border Security and Control between Ports of Entry)	89
	2.3		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. (Automation Modernization)	90
2.1			Deny the use of air, land and coastal waters for conducting acts of terrorism and other illegal activities against, the United States. (Air and Marine Operations)	92
	2.3		Develop the systems architecture, conduct all associated systems engineering, and develop technology roadmaps for risk areas in nuclear detection. (Domestic Nuclear Detection Systems Engineering and Architecture)	92

NOTE 1: The Net Cost measures the cost of supporting that entire strategic objective, not just the performance goal(s) identified in the table.

NOTE 2: Net cost for Objective 2.6 is negative due to offsetting revenue. See explanations on page 71.

## STRATEGIC GOAL 2 - PREVENTION

### STRATEGIC OBJECTIVES SUPPORTING GOAL 2

2.1 Secure our borders against terrorists, means of terrorism, illegal drugs and violations of trade and immigration laws.

2.2 Enforce trade and immigration laws.

2.3 Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.

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

2.5 Strengthen the security of the Nations transportation systems.

2.6 Ensure the security and integrity of the immigration system.

#### PERFORMANCE GOALS OF MAJOR PROGRAMS CONTRIBUTING TO OBJECTIVES

**Detail  
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		2.3		Incrementally design, develop, acquire, and support the deployment of a system capable of rapid and high - reliability detection and identification of special nuclear material with out restriction to commerce. (Domestic Nuclear Detection Systems Development and Acquisition)	93
		2.3		Develop the future nuclear detection technologies that will be capable of detecting all nuclear material entering the United States Homeland. (Domestic Nuclear Detection Transformational Research and Development)	94
		2.3		Develop the tools and methodology for and to assess the Nation's domestic nuclear detection capabilities through a combination of developmental and operational test and evaluation, as well as active red - teaming exercises. (Domestic Nuclear Detection Assessments)	95
		2.3		Establish and maintain a real-time situational awareness and support capability for the national nuclear detection architecture, including information analysis, technical reachback, and the development of training and operational response protocols. (Domestic Nuclear Detection Operations Support)	96
			2.4	Accredit all Federal law enforcement training. (Accreditation)	96
			2.4	Provide the knowledge and skills to enable law enforcement agents and officers to fulfill their responsibilities. (Law Enforcement Training)	97
2.2				Remove all removable aliens from the United States. (Detention and Removal)	98

STRATEGIC GOAL 2 - PREVENTION				
STRATEGIC OBJECTIVES SUPPORTING GOAL 2				
<i>2.1 Secure our borders against terrorists, means of terrorism, illegal drugs and violations of trade and immigration laws.</i>				
<i>2.2 Enforce trade and immigration laws.</i>				
<i>2.3 Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.</i>				
<i>2.4 Coordinate national and international policy, law enforcement, and other actions to prevent terrorism.</i>				
<i>2.5 Strengthen the security of the Nations transportation systems.</i>				
<i>2.6 Ensure the security and integrity of the immigration system.</i>				
<b>PERFORMANCE GOALS OF MAJOR PROGRAMS CONTRIBUTING TO OBJECTIVES</b>				<b>Detail on Page</b>
2.2			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. (Office of Investigations)	99
2.1			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. (Screening Coordination and Operations Office (SCO) Now US-VISIT)	113
	2.3		Provide dependable risk analyses, effective systems for surveillance and detection, and reliable bioforensic analyses to protect the nation against biological attacks. (Biological Countermeasures)	100
	2.3		Provide dependable risk analyses, effective systems for surveillance, detection, and cleanup, and reliable chemical forensic analyses to protect the nation against chemical attacks. (Chemical Countermeasures)	101
	2.3		Improve explosives countermeasures technologies and procedures to prevent attacks on critical infrastructure, key assets, and the public. (Explosives Countermeasures)	101

## STRATEGIC GOAL 2 - PREVENTION

### STRATEGIC OBJECTIVES SUPPORTING GOAL 2

2.1 Secure our borders against terrorists, means of terrorism, illegal drugs and violations of trade and immigration laws.

2.2 Enforce trade and immigration laws.

2.3 Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.

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

2.5 Strengthen the security of the Nations transportation systems.

2.6 Ensure the security and integrity of the immigration system.

#### PERFORMANCE GOALS OF MAJOR PROGRAMS CONTRIBUTING TO OBJECTIVES

**Detail  
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Page**

		2.3			Advance capabilities for threat discovery and awareness, information management and sharing, linkage of threats with vulnerabilities, and capability and motivation assessments for terrorist organizations. (Threat Awareness Portfolio)	102
		2.3			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. (Support to Department of Homeland Security Components)	103
		2.3			Establish and sustain a coordinated university - based research, development and education system to enhance the Nation's homeland security. (University Programs)	104
		2.3			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. (Standards)	102
		2.3			Prevent terrorist attacks by developing effective capabilities to characterize, assess, and counter new and emerging threats. (Emerging Threats)	105
		2.3			Identify and rapidly develop, prototype, and commercialize innovative technologies to thwart terrorist attacks. (Rapid Prototyping)	105



## STRATEGIC GOAL 2 - PREVENTION

### STRATEGIC OBJECTIVES SUPPORTING GOAL 2

2.1 Secure our borders against terrorists, means of terrorism, illegal drugs and violations of trade and immigration laws.

2.2 Enforce trade and immigration laws.

2.3 Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.

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

2.5 Strengthen the security of the Nations transportation systems.

2.6 Ensure the security and integrity of the immigration system.

#### PERFORMANCE GOALS OF MAJOR PROGRAMS CONTRIBUTING TO OBJECTIVES

**Detail  
on  
Page**

	2.3		Provide effective and economical capabilities to dramatically reduce the threat to commercial aircraft posed by man-portable anti-aircraft missiles. [Counter Man-Portable Air Defense System (MANPADS)]	106
	2.3		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. (Interoperability & Compatibility)	107
	2.3		Produce actionable information and recommend reliable technologies to help protect U.S. critical infrastructure. (Critical Infrastructure Protection)	107
	2.3		Enable the creation of and migration to a more secure critical information infrastructure. (Cyber Security)	108
	2.3		Encourage the development and deployment of anti-terrorism technologies by awarding SAFETY Act benefits to homeland security technology producers. (SAFETY Act)	109
	2.3	2.5	Reduce the probability of a successful terrorist or other criminal attack to the air transportation system by improved passenger and baggage screening processes. (Aviation Security)	109
		2.5	Reduce the probability of a successful terrorist or other criminal attack on surface transportation systems through the issuing of standards, compliance inspections, and vulnerability assessments. (Surface Transportation Security)	111

## STRATEGIC GOAL 2 - PREVENTION

### STRATEGIC OBJECTIVES SUPPORTING GOAL 2

2.1 Secure our borders against terrorists, means of terrorism, illegal drugs and violations of trade and immigration laws.

2.2 Enforce trade and immigration laws.

2.3 Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.

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

2.5 Strengthen the security of the Nations transportation systems.

2.6 Ensure the security and integrity of the immigration system.

#### PERFORMANCE GOALS OF MAJOR PROGRAMS CONTRIBUTING TO OBJECTIVES

**Detail  
on  
Page**

			2.5	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. (Federal Air Marshall Service)	112
			2.5	Eliminate maritime fatalities and injuries on our Nations oceans and waterways. (Marine Safety)	114
2.1	2.1			Reduce the flow of illegal drugs entering the U.S. via non - commercial maritime shipping sources. (Drug Interdiction)	115
2.1	2.1			Eliminate the flow of undocumented migrants via maritime routes to the U.S. (Migrant Interdiction)	116
2.1				Reduce the numbers of vessel incursions into the United States Exclusive Economic Zone (EEZ). (Other law enforcement)	117
		2.4		Support our national security and military strategies by ensuring assets are at the level of readiness required by the combatant commander. (Defense Readiness)	118
			2.6	Enhance the integrity of the legal immigration system. (Immigration Security and Integrity)	119

STRATEGIC GOAL 4 - RESPONSE				
STRATEGIC OBJECTIVES SUPPORTING GOAL 4				FY 06 Net Cost (in millions)
4.1 Reduce the loss of life and property by strengthening response readiness.				\$ 428.0
4.2 Provide scalable and robust all-hazard response capability.				\$ 5,119.4
4.3 Provide search and rescue services to people and property in distress.				\$ 993.8
<b>PERFORMANCE GOALS OF MAJOR PROGRAMS CONTRIBUTING TO OBJECTIVES</b>				<b>Detail on Page</b>
4.1	4.2		Ensure the capability and readiness of all FEMA disaster response teams and logistics capabilities to respond quickly and effectively to provide assistance when and where needed. (Response)	138
		4.3	Save mariners in imminent danger on our Nations oceans and waterways. [Search and Rescue (SAR)]	140
4.1	4.2		Eliminate oil spills and chemical discharge incidents. [Marine Environmental Protection (MEP)]	140

NOTE: The Net Cost measures the cost of supporting that entire strategic objective, not just the performance goal(s) identified in the table.

## HIGHLIGHTS

Some of the key performance measures used to gauge success in achieving the goal of Response are highlighted below. These measures illustrate some of our significant accomplishments during FY 2006 in achieving Response goals and objectives.

The Department of Homeland Security uses a risk-based approach to identify preventive and protective steps that increase security, and in turn, reduces the risk of harm to the Homeland. A quantifiable overall measurement of risk reduction would be an ideal measure; however, there is not a straightforward way of calculating total risk reduction to all aspects of our Homeland at this time. Yet, the measures below show the Department's progress in addressing risk reduction by improving Response.

- **FEMA's average response time to arrive at a disaster scene has improved.**

Measure: *Average response time in hours for emergency response teams to arrive on scene.* (Target Met) (See page 139)

Arriving at an emergency quickly shows the Department's ability to respond to disasters. With a goal of 48 hours for Federal response teams to arrive on scene at a disaster site, during FY 2006 our average response time was 25 hours. The Department provides Federal response to catastrophic events and natural disasters when state and local governments lack the ability to respond adequately. Improving the timeliness of specialized Federal response teams has saved lives, reduced property loss, enabled greater continuity of services, and enhanced logistical capability in the

wake of disasters.

This reduction in time for emergency response teams to be operational on the scene will greatly improve the impact to lives saved, loss of property, available services, and logistics capability.

- **The Coast Guard continues to rescue mariners in imminent danger.**

Measure: *Percent of mariners in imminent danger saved.* (Target Not Met) (See page 140)

Minimizing the loss of life, injury, and property damage by rendering aid to persons in distress is a Department priority. We seek to prevent loss of life in every situation where our efforts could possibly be brought to bear. In FY 2006, the U.S. Coast Guard rescued 85.3% of mariners in imminent danger. This is slightly down from our FY 2005 results of 86.1%. 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. Every day the U.S. Coast Guard Search and Rescue program saves mariners in imminent danger on our Nation's waterways and oceans. To further increase the number of lives saved, the Department is investing in new response capabilities, including the Response Boat Medium and wider implementation of the Rescue-21 communications system. Moreover, we are improving prevention activities, including safe boater programs to reduce the overall risk to mariners. These investments combine to increase the probability that a search and rescue mission will end with lives saved instead of lost.

## FUTURE STEPS

**I**mproving the nation's ability to respond to disasters, man-made or natural, is a top priority for the Department. Incorporating lessons learned from Hurricane Katrina and other disasters, the Department is improving its capabilities and preparing those who respond to acts of terror and other emergencies. Our priority is ensuring connectivity and interoperability with the appropriate Federal, state and local entities that are accountable for response.

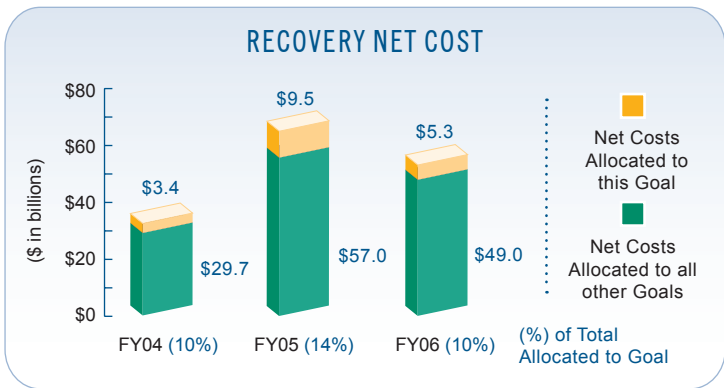
The Department will implement an interoperable, safe and reliable communications system to ensure an effective response to crisis. Additionally, we will build a comprehensive package of strategically pre-positioned response equipment, available trained personnel, supplies and transportation assets.

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.

To assist mariners in distress, the U.S. Coast Guard will replace 41-foot utility boats and other large non-standard boats with assets more capable of meeting all of their multi-mission operational requirements. The response boat-medium will greatly improve the Coast Guard's small boat Search and Rescue response capability by providing increased speed, enhanced ability to handle greater sea conditions, and improved electronics, thereby providing the opportunity to save more lives.

# Strategic Goal 5 Recovery

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



## Serving the Public

U.S. Army Corps of Engineer Herbie Petit and Plaquemines Parrish Flood Gate Operator John Machella point to some pumps in Empire, New Orleans, LA, used to pump water out from between a temporary coffer dam and the Flood Gate so repairs can be made. FEMA is helping the Parrish government repair the Flood Gate that was damaged by Hurricane Katrina under its Public Assistance Program.

**T**o fully support this strategic goal, we developed subordinate strategic objectives with supporting performance goals for programs. For each performance goal, we developed quantitative performance measures. Collectively, these measures assess progress in attainment of our strategic goal of Recovery.

The table below correlates our strategic objectives with the performance goals established for each objective, indicated by an objective number in the left hand column. The chart also indicates the estimated net cost of efforts to achieve the objective.

STRATEGIC GOAL 5 - RECOVERY			
STRATEGIC OBJECTIVES SUPPORTING GOAL 5			FY 06 Net Cost (in millions)
5.1 Strengthen nationwide recovery plans and capabilities.			\$ 240.8
5.2 Provide scalable and robust all-hazard recovery assistance.			\$ 4,339.3
<p style="text-align: center;"><b>PERFORMANCE GOALS OF MAJOR PROGRAMS CONTRIBUTING TO OBJECTIVES</b></p>			<b>Detail on Page</b>
5.1	5.2	Help individuals and communities affected by federally declared disasters return to normal function quickly and efficiently, while planning for catastrophic disaster recovery operations. (Recovery)	142

NOTE: The Net Cost measures the cost of supporting that entire strategic objective, not just the performance goal(s) identified in the table.

## HIGHLIGHTS

Some of the key performance measures used to gauge success in achieving the goal of Recovery are highlighted below. These measures illustrate some of our significant accomplishments during FY 2006 in achieving Recovery goals and objectives.

- **Customer satisfaction with FEMA's recovery assistance has improved.**

Measures: *Percent of customers satisfied with Public Recovery Assistance (Target Met)* (See page 142)

To ensure that individuals and families that have been affected by disasters have access to the full range of response and recovery programs in a timely manner and that the best possible level of service is provided to applicants, the Department seeks to increase the annual customer satisfaction level among recipients, while reducing the program delivery cost and increasing the timeliness of service delivery. With a goal of 90% satisfaction with Individual Recovery Assistance programs, during FY 2006 we achieved a customer satisfaction rating of 91% in response to the question "Overall, how would you rate the information and support you received from FEMA since the disaster occurred?" As much as we try to prepare for catastrophic disasters and to reduce our risk from their devastation, hurricanes, tornadoes, major earthquakes and other disasters still happen. When they do, local and state officials are the first to respond. If the loss of life and property overwhelms this response, the Department's Federal Emergency Management Agency (FEMA) is called upon to help. We measure the important factors of overall customer satisfaction with both Individual Recovery Assistance programs that provide aid to individuals, families and business owners; and with Public Assistance Programs that provide aid to public and certain private non-profit entities for emergency services and for the repair or replacement of disaster-damaged public facilities.

## FUTURE STEPS

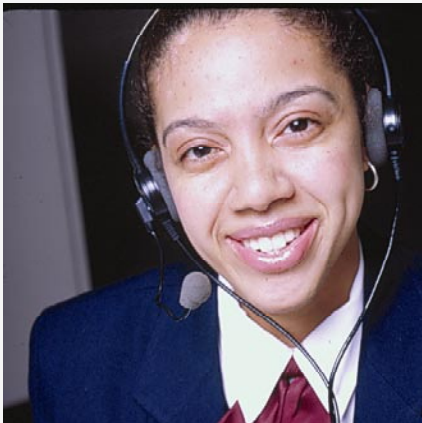
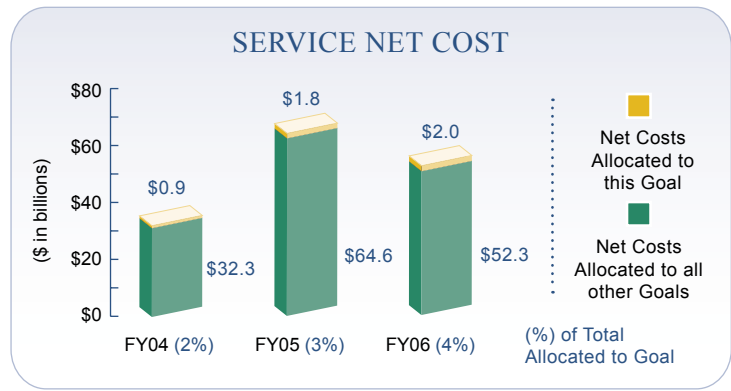
The Department leads the nation in coordinating recovery from disasters. In the event of a national emergency, the Department is prepared to lead Federal, state, local and private-sector efforts to help rebuild communities and restore services. We will lead long-term recovery including assessing losses, identifying infrastructure recovery actions and rebuilding the capabilities of local partners. As a result of lessons learned from Hurricane Katrina, the Department is dramatically increasing



the nation's stockpiles of relief supplies, retooling the Federal Emergency Management Agency (FEMA) for the 21st century, updating disaster plans, supporting our state and local partners, and emphasizing individual and community preparedness. The Department is undertaking several new measures designed to strengthen FEMA's essential functions so it can more effectively respond to manmade or natural disasters, particularly during catastrophic events. These new measures are designed to match the experience and skills of FEMA employees with state of the art tools and technology - maximizing the agency's performance regardless of disaster size or complexity. The Department is specifically working to improve FEMA's logistics capabilities, enhance customer service and intake procedures, improve the debris removal process, and build more effective communications capabilities to ensure timely and accurate awareness about conditions and events that unfold during a disaster. As a result, four times the number of emergency meals and ice, and 2.5 times the water are available this year than were available prior to Hurricane Katrina. These supplies have the capacity to sustain 1 million people for a period of one week. Katrina left over 100 million cubic yards of debris in its wake over a span of 90,000 square miles. In order to streamline the debris removal process and ensure quick reimbursement for services, FEMA is establishing solid contracting practices to help communities quickly begin recovery operations. When it makes economic sense, local construction companies will be allowed to more fully participate in debris removal.

# Strategic Goal 6 Service

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



## Serving the Public

Improving cycle time and customer satisfaction conveys the Department's focus on serving the public. The Department secures America's promise as a nation of immigrants and upholds our time-honored tradition of welcoming those individuals seeking freedom, liberty and an opportunity for a better life. The Department's U.S. Citizenship and Immigration Services (USCIS) seeks to decrease the amount of time it takes to obtain benefits by those who qualify for them, while identifying and denying benefits to those who are ineligible.

**On average, on an annual basis, USCIS:**

- Processes more than 6 million applications;
- Serves more than 20 million customers via the National Customer Service Call Centers;
- Serves approximately 3 million customers through information counters at local offices;
- Processes nearly 90,000 asylum cases;
- Performs more than 90,000 refugee interviews; and
- Conducts the naturalization of approximately half a million new citizens

To fully support this strategic goal, we developed subordinate strategic objectives with supporting performance goals for programs. For each performance goal, we developed quantitative performance measures. Collectively, these measures assess progress in attainment of our strategic goal of Service.

The table below correlates our strategic objectives with the performance goals established for each objective, indicated by an objective number in the left hand column. The chart also indicates the estimated net cost of efforts to achieve the objective.

STRATEGIC GOAL 6 - SERVICE				
STRATEGIC OBJECTIVES SUPPORTING GOAL 6			FY 06 Net Cost (in millions)	
6.1 Increase understanding of naturalization, and its privileges and responsibilities.			\$ 0	
6.2 Provide efficient and responsive immigration services that respect the dignity and value of individuals.			\$ -108.0	
6.3 Support the United States humanitarian commitment with flexible and sound immigration and refugee programs.			\$ 5.1	
6.4 Facilitate the efficient movement of legitimate cargo and people.			\$ 1,405.1	
<b>PERFORMANCE GOALS OF MAJOR PROGRAMS CONTRIBUTING TO OBJECTIVES</b>			<b>Detail on Page</b>	
		6.4	Eliminate collisions, allisions and groundings by vessels on our Nations oceans and waterways. (Aids to Navigation)	144
		6.4	Maintain operational channels for navigation, limiting channel closures to two days (during average winters) and eight days (during severe winters). (Ice Operations)	145
	6.2	6.3	Provide immigration benefit services in a timely, consistent, and accurate manner. (Adjudication Services)	146
	6.2		Provide timely, consistent, and accurate information to our customers. (Information and Customer Service)	148
6.1			Enhance educational resources and promote opportunities to support immigrants' integration and participation in American civic culture. (Citizenship)	149

NOTE 1: The Net Cost measures the cost of supporting that entire strategic objective, not just the performance goal(s) identified in the table.

NOTE 2: Net cost for objectives 6.1, 6.2 and 6.3 are low or negative due to offsetting revenue. See explanations on page 71.

## HIGHLIGHTS

Some of the key performance measures used to gauge success in achieving the goal of Service are highlighted below. These measures illustrate some of our significant accomplishments during FY 2006 in achieving Service goals and objectives.

- **Immigration services has improved.**

Measures: *Actual cycle time to process form I-485 (Application to Register for Permanent Residence or to Adjust Status)* (Target Met), *Actual cycle time to process form I-129 (Petition for Nonimmigrant Worker)* (Target Met), *Actual cycle time to process form N-400 (Application for Naturalization)* (Target Met), and *Customer satisfaction rate with USCIS phone centers* (Target Met) (See pages 146-148)

Improving cycle time and customer satisfaction conveys the Department's focus on serving the public. The Department secures America's promise as a nation of immigrants and upholds our time-honored tradition of welcoming those individuals seeking freedom, liberty and an opportunity for a better life. The Department's U.S. Citizenship and Immigration Services (USCIS) seeks to decrease the amount of time it takes to obtain benefits by those who qualify for them, while identifying and denying benefits to those who are ineligible. The USCIS conducts approximately 135,000 background checks on applicants seeking immigration benefits each day to ensure that appropriate individuals receive them. We provide phone-based assistance to the public to obtain benefits and services offered by the Department, and measure customer satisfaction with service received over the phone. During FY 2006, we experienced an 83% customer satisfaction rating for phone services. We measure cycle time, or the amount of time it takes to provide a decision on an application once it is received, as one way of evaluating the efficiency of our processes. For eligible aliens who seek to become legal permanent residents, "green card" holders, or otherwise adjust status through the I-485 application, the cycle time was 5.9 months meeting our target of less than 6 months and significantly improved from our FY 2005 results of 13.9 months. For those who seek naturalization through the N-400 application, the cycle time was 5.6 months meeting our target of 6 months and also down from our FY 2005 results of 10.9 months. For foreign workers who perform temporary services, provide labor, or receive training through the I-129 petition, the cycle time was 2 months meeting our target, but up from our FY 2005 results of 1.5 months.

In addition, to reopen navigable channels and operational waterways in the aftermath of Hurricane Katrina, the U.S. Coast Guard removed hazards, repaired navigation aids, and facilitated the reconstruction of bridges in the Gulf Region. A few of the results achieved by their efforts are:

More than 2,000 vessels were damaged by Hurricane Katrina and more than 800 vessels caused a potential hazard to navigation. As of August 1, 2006, the Coast Guard has overseen salvage of over 800 of these vessels. Removal of other marine debris (garbage, houses, automobiles, etc.) is ongoing. As a result, no critical navigable waterways are currently obstructed by vessels or marine debris.

1,789 aids to navigation (day markers, buoys, etc.), including 73 ranges, were damaged or destroyed by Hurricane Katrina. Currently, all ports are open without restrictions and all aids to navigation have been repaired with permanent or temporary markers.

The Coast Guard Bridge Program has facilitated reconstruction of over 70 damaged or destroyed bridges impacting navigable waterways in the Gulf Coast region. As of August 1, 2006, approximately 95% of the damaged bridges have been placed back in service, and the Coast Guard is working closely with local and state governments to expedite construction on those bridges still requiring repairs or replacement.

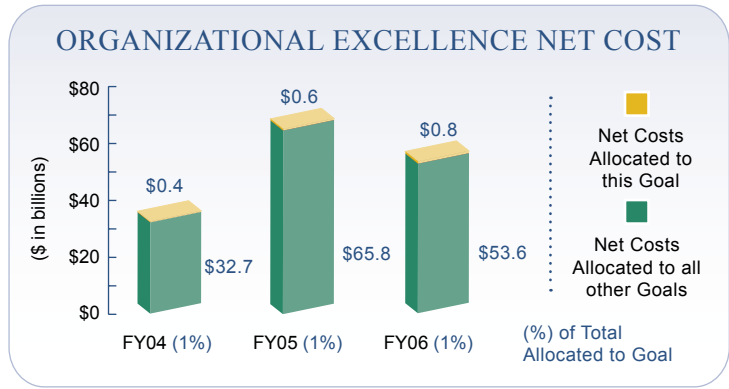
## FUTURE STEPS

**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 eliminate burdensome management and support functions and modernize immigration services by restructuring our business processes, implementing electronic filing and conducting virtual adjudications. These changes will continue to build upon the progress achieved at the end of FY 2006 in significantly reducing the immigration application backlog resulting in a six month or better average processing time for nearly all applications. To support the United States' humanitarian commitment, we have established a Refugee Corps that will provide a strong and effective overseas refugee-processing program able to fulfill the Refugee Affairs 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 improve the Department's data-gathering capability, streamline filing processes, and reduce the paperwork burden by eliminating 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, U.S. Customs and Border Protection will implement a new design of its facilities, starting in airports around the United States, to integrate the border functions and combine primary and secondary inspections into one. As a result, the majority of the traveling public will have less contact with 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.

# Strategic Goal 7 Organizational Excellence

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



## Serving the Public

The President's Management Agenda (PMA) provides a key framework for achieving organizational excellence. The Under Secretary for Management leads the overall improvement efforts to achieve the high standards of PMA in its targeted areas of improvement: Human Capital, Competitive Sourcing, Financial Performance, E-Government, Budget and Performance Integration, Faith-Based and Community Initiatives, and Real Property Management. A lead person in DHS headquarters is designated to develop and pursue plans for improvement in each area. This photo depicts a meeting of initiative area leads discussing plans to further advance progress to meet the President's high standards.

In the spirit of the President's Management Agenda to improve management, and to fully achieve Organizational Excellence, we identified strategic objectives and established performance goals. For each performance goal, we developed quantitative performance measures with associated target levels of execution to measure our progress. These targets are used to derive the performance-based budget we submit to the Congress each year. Collectively, these measures are designed to achieve our strategic goal of Organizational Excellence. The table below correlates our Organizational Excellence objectives with the performance goals established for each objective, indicated by an objective number in the left hand column and the estimated net cost of efforts to achieve the objective. Also provided is information regarding the Department's performance as compared to our targets in FY 2006.























STRATEGIC GOAL 7 - ORGANIZATIONAL EXCELLENCE			
STRATEGIC OBJECTIVES SUPPORTING GOAL 7			FY 06 Net Cost (in millions)
7.1 Value our people.			\$ 75.8
7.2 Drive toward a single departmental culture.			\$ 0
7.3 Continually improve our way of doing business.			\$ 627.5
<p style="text-align: center;"><b>PERFORMANCE GOALS OF MAJOR PROGRAMS CONTRIBUTING TO OBJECTIVES</b></p>			<b>Detail on Page</b>
	7.3	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. (Audit, Inspections, and Investigations Program)	150
	7.3	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. (Office of the Chief Information Officer)	151
	7.3	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. (Counterterrorism Fund)	151
	7.3	Provide comprehensive leadership, management, oversight, and support to improve the efficiency and effectiveness of the Department. (Office of the Secretary and Executive Management)	152
7.1	7.3	Improve the effective and efficient delivery of business and management services throughout the Department. (Office of the Under Secretary for Management)	152
	7.3	Develop and Maintain a Department-wide financial system that produces financial data that is timely, reliable, and useful to decision makers; strengthen accountability by ensuring that internal controls are in place across the Department and oversight reviews are conducted (Office of the Chief Financial Officer)	153

NOTE 1: The Net Cost measures the cost of supporting that entire strategic objective, not just the performance goal(s) identified in the table.

NOTE 2: The Secretary's Second Stage Review (2SR) was a major FY 2005 initiative. For FY 2006, additional measures were added in support of strategic objective 7.3. Some of these new measures indirectly support strategic objective 7.2.

## IMPLEMENTING THE PRESIDENT'S MANAGEMENT AGENDA

The *President's Management Agenda* was launched in August 2001 as a strategy for improving the management and performance of the Federal government. It focuses on the areas where deficiencies were most apparent and where the government could begin to deliver concrete, measurable results. The agenda includes five original initiatives: Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanding Electronic Government, and Budget and Performance Integration. In addition to these initiatives, two new initiatives were subsequently added to the scorecard: Eliminating Improper Payments and Real Property. We have embraced the agenda since the Department was established in 2003 and have made steady progress each fiscal year. The Office of Management and Budget (OMB) regularly assesses our implementation of the agenda, issuing an Executive Branch Management Scorecard rating of green, yellow or red for both status and progress to achieve standards for each initiative. Overall, the Department improved in 2 of the status categories from last year's scorecard. The Department went from red to yellow in Eliminating Improper Payments and Real Property. The scorecard for the period ending September 30, 2006 rated the Department's status as green on zero (0) of the seven initiatives, yellow on 5 initiatives and red on the remaining 2. Progress scores were 4 green, 1 yellow and 2 red. Each year the standards for attaining green in the progress area are made more demanding. The Department continues to demonstrate progress in implementing government-wide program-specific initiatives. More detailed information regarding our progress may be found in the *Other Management Information, Initiatives, and Issues* section of this report, on page 72. A high level view of our progress, as rated by the scorecard is provided below.

PRESIDENT'S MANAGEMENT AGENDA SCORECARD				
(As of September 30, 2006)				
	Status			Progress
	FY04	FY05	FY06	FY06
Human Capital				
Competitive Sourcing				
Financial Performance				
E-Government				
Budget & Performance				
Eliminating Improper Payments *				
Real Property *				
* Program-Specific Initiatives				

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

## HIGHLIGHTS

Significant accomplishments during fiscal year 2006 in achieving Organizational Excellence goals and objectives include the following:

**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

- Developed and successfully implemented an Enterprise Architecture (EA) to guide investment decisions and systems development activities for the department.
- Completed security certification and accreditation for 95 percent of the department's systems at the end of FY 2006, up from 35 percent at the beginning of the fiscal year.
- Complied with the FY 08 budget process requirement for identifying Federal Information Security Management Act (FISMA) systems that pertain to each major IT investment. Requiring that each FISMA system be mapped to an investment has resulted in a more accurate accounting for IT spending.
- Mapped all DHS IT investments to functional and IT portfolios, and developed portfolio cost reports.

**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.

- Developed the first accurate and current inventory of DHS real property assets. This inventory includes all installations, buildings, structures and land owned and operated in support of DHS missions.
- Published the DHS Asset Management Plan in June 2006.
- Established DHS-wide councils that provide management focus on real property across the Department and its components.

## 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 alternative 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 eGov 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 are 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 as we work to move from periodic analysis to an ongoing project-by-project based capability.

## Analysis of Financial Statements

These 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, 2006 and 2005**  
(In Millions)

	<b>FY 2006</b> <b>(Unaudited)</b>	<b>FY 2005</b>	<b>Change</b>
		<b>(Unaudited)</b> <b>(Restated)</b>	
<b>ASSETS</b>			
Intragovernmental Assets	\$63,773	\$101,048	\$(37,275)
Tax, Duties and Trade Receivables, Net	1,755	1,400	355
General Property, Plant and Equipment, Net	11,036	10,460	576
Other	2,669	1,588	1,081
<b>Total Assets</b>	<b>\$79,233</b>	<b>\$114,496</b>	<b>\$(35,263)</b>
<b>LIABILITIES</b>			
Intragovernmental Liabilities	\$21,665	\$3,135	\$18,530
Insurance Liabilities	3,567	23,433	(19,866)
Accrued Payroll and Benefits	1,362	1,366	(4)
Federal Employee and Veterans Benefits	32,278	30,050	2,228
Other	12,015	11,228	787
<b>Total Liabilities (Note 17)</b>	<b>\$70,887</b>	<b>\$69,212</b>	<b>\$1,675</b>
<b>Net Position</b>			
Unexpended Appropriations	48,102	87,131	(39,029)
Cumulative Results of Operations	(39,756)	(41,847)	2,091
<b>Total Net Position</b>	<b>\$8,346</b>	<b>\$45,284</b>	<b>\$(36,938)</b>
<b>Total Liabilities and Net Position</b>	<b>\$79,233</b>	<b>\$114,496</b>	<b>\$(35,263)</b>

Figure 1. Department's Consolidated Balance Sheet (Condensed)

### ASSETS

In fiscal year 2006, the Department's assets totaled \$79,233 million. This is a decrease of \$35,263 million over the prior year's assets totaling \$114,496 million. The major portion of the decrease in Total Assets is in Intragovernmental Assets which is made up of primarily Fund Balance with Treasury and Advances and Prepayments. Intragovernmental Assets and General Property, Plant, and Equipment comprise 94% of total assets. Figure 2 summarizes the Department's assets as of September 30, 2006 and September 30, 2005.

Fund Balance with Treasury represents \$59,568 million or 93% of Intragovernmental Assets. The decrease in Intragovernmental Assets is due to a FEMA rescission, an increase in payments for Hurricane Katrina victims, and a reduction in the

amount of appropriations received by FEMA. A portion of 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.

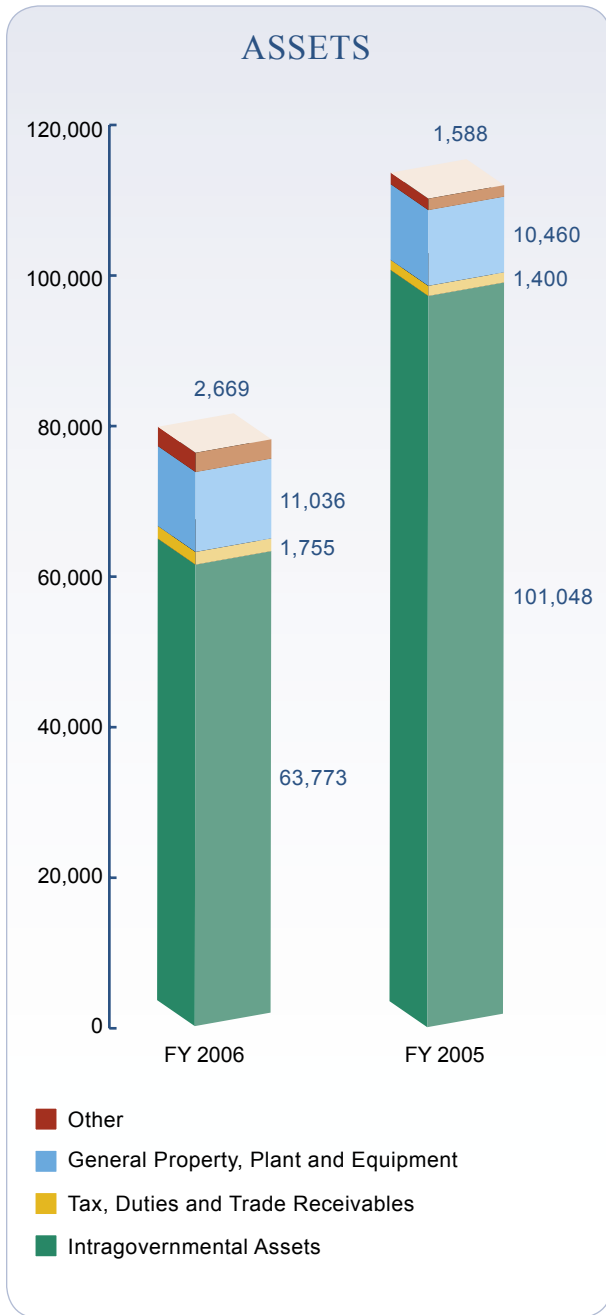


Figure 2. Department Assets

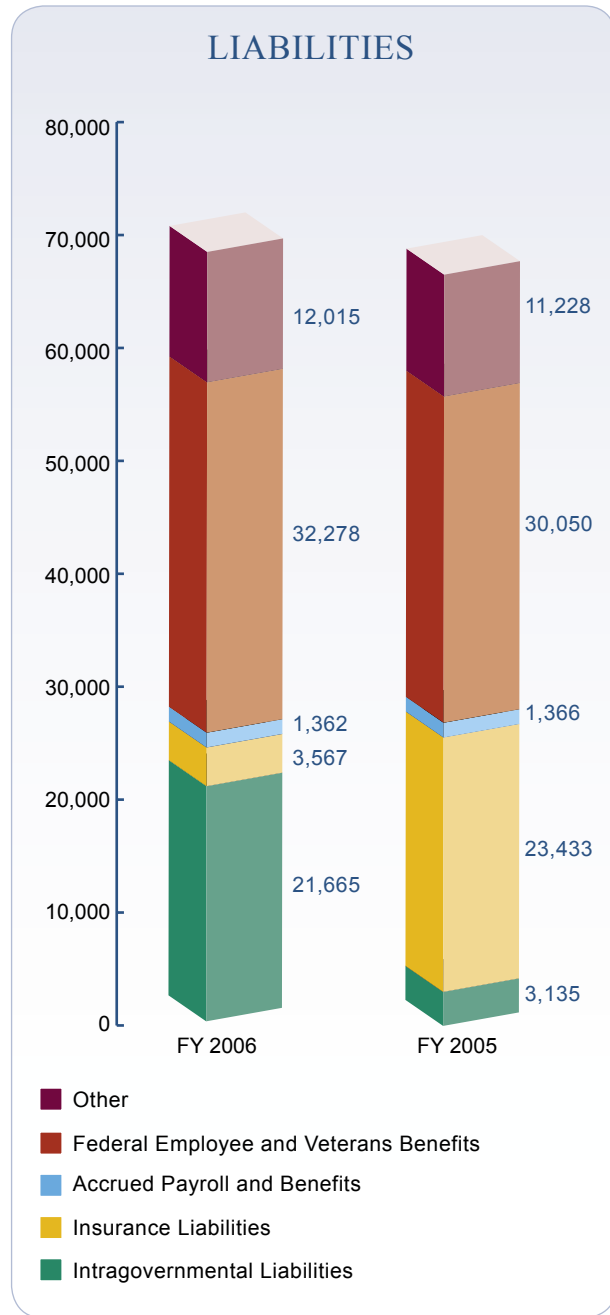


Figure 3. Department Liabilities



## LIABILITIES

**I**n fiscal year 2006, the Department's liabilities totaled \$70,887 million. This is an increase of \$1,675 million over the prior year's restated liabilities, which totaled \$69,212 million. Intragovernmental Liabilities is made up of primarily of debt to the U.S. Treasury, amounts due to the General Fund, and Accounts Payable. The difference in Intragovernmental Liabilities is due primarily to FEMA's increase in borrowings with the Bureau of Public Debt to cover claims settlements for Hurricane Katrina. The difference in Insurance Liabilities consists of FEMA payments of Hurricane Katrina claims.

Federal Employee and Veteran Benefits (arising primarily from U.S. Coast Guard personnel benefits) comprise 45% of the Department's total liabilities. *Figure 3* summarizes the Department's liabilities as of September 30, 2006, and September 30, 2005.

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 incurred.

## ENDING NET POSITION

**T**he Department's Net Position at the end of fiscal year 2006, disclosed in the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position is made up primarily of two sections, Cumulative Results of Operations and Unexpended Appropriations. The total net position was \$8,346 million, a decrease of \$36,938 million from the previous year. The decrease is the result of a FEMA rescission.

## RESULTS OF OPERATIONS

**T**he Department's net cost of operations for fiscal year 2006 was \$54,318 million. This is a decrease of \$11,548 million from the previous year's restated net cost of \$65,866 million. The Department of Homeland Security Strategic Plan outlines the following mission goals: *Awareness, Prevention, Protection, Response, Recovery, Service, and Organizational Excellence*. Because of costs associated with Hurricane Katrina, FEMA Costs by Strategic Goals (Protection, Response, and Recovery) represent 43% 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, 2006 and 2005**  
(In Millions)

<b>Cost by Directorate and Component</b>	<b>FY 2006</b>	<b>FY 2005</b>	<b>Change</b>
	<b>(Unaudited)</b>	<b>(Unaudited) (Restated)</b>	
United States Visit	\$262	\$172	\$90
United States Customs and Border Protection	6,982	6,440	542
United States Coast Guard	9,587	8,925	662
United States Citizenship and Immigration Services	(120)	(347)	227
Federal Emergency Management Agency	23,217	37,484	(14,267)
Federal Law Enforcement Training Center	279	226	53
Preparedness Directorate	3,769	2,681	1,088
United States Immigration and Custom Enforcement	3,630	3,172	458
United States Secret Service	1,453	1,483	(30)
Science and Technology	843	731	112
Transportation Security Administration	3,566	4,268	(702)
Departmental Operations and Others	850	631	219
<b>Net Cost of Operations</b>	<b>\$54,318</b>	<b>\$65,866</b>	<b>\$(11,548)</b>
Total Cost	\$62,481	\$73,479	\$(10,998)
Total Revenue	(8,163)	(7,613)	(550)
<b>Net Cost of Operations</b>	<b>\$54,318</b>	<b>\$65,866</b>	<b>\$(11,548)</b>

Figure 4. Department's Statement of Net Cost (Condensed)

## REVENUES

**D**uring fiscal year 2006, the Department earned approximately \$8,163 million in revenues; this is an increase of about \$550 million from the restated amount of \$7,613 million on September 30, 2005.

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 user fees that CBP collects on behalf of the Federal Government as a result of its sovereign powers rather than as a result of providing goods or services 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 \$23,564 million and \$27,580 million as of September 30, 2006 and 2005, 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 \$91,412 million and \$68,628 million were incurred as of September 30, 2006 and 2005 on total budgetary resources of \$108,456 million and \$125,533 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.

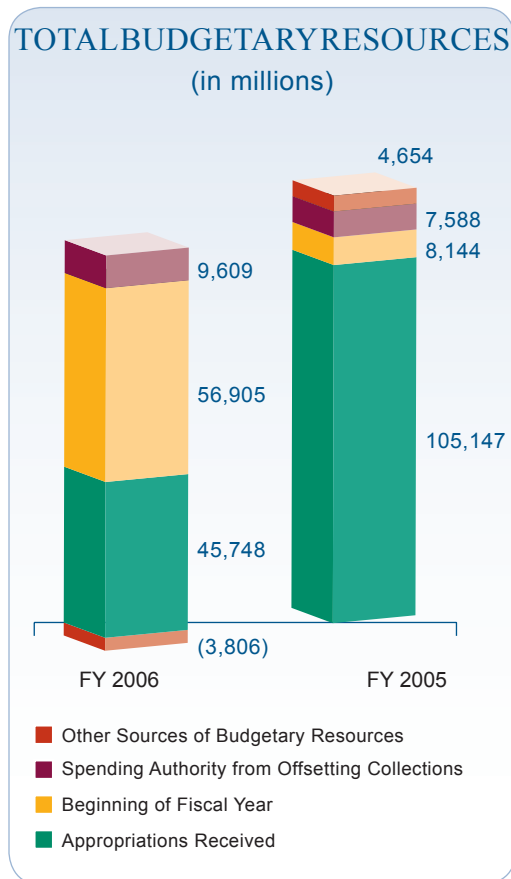


Figure 5. Total Budgetary Resources

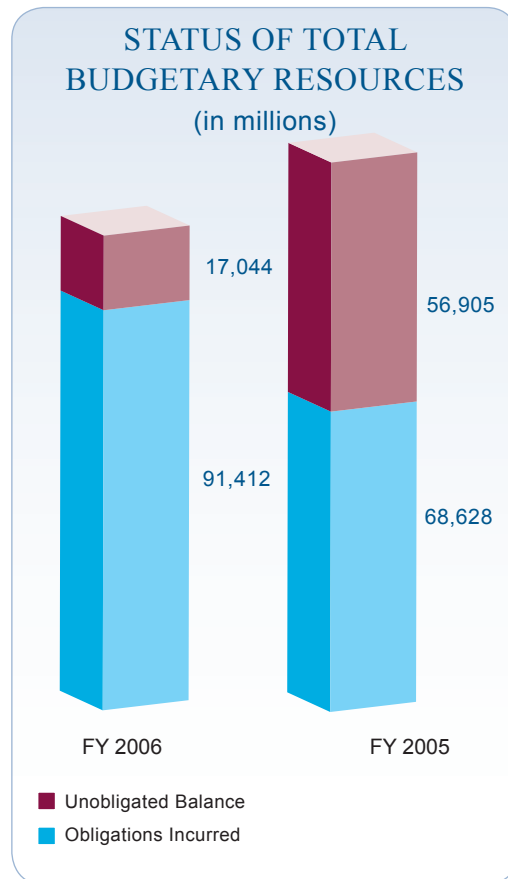


Figure 6. Status of Total Budgetary Resources

## ANALYSIS OF INTERNAL CONTROLS, SYSTEMS, AND LEGAL COMPLIANCE

### Federal Managers' Financial Integrity Act and the DHS Financial Accountability Act

DHS is responsible for establishing, maintaining, and assessing internal control to provide reasonable assurance that the control objectives of the Federal Managers' Financial Integrity Act, 31 U.S.C. 3512 Sections 2 and 4, are met and comply with applicable laws and regulations. To identify material weaknesses and non-conformance conditions, management used the following criteria:

- Merits the attention of the Executive Office of the President and the relevant Congressional oversight committees;
- Impairs fulfillment of essential operations or 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; and
- Financial management systems conformance to government-wide systems requirements.

In addition, the Department of Homeland Security Financial Accountability Act, P.L. 108-330, requires a separate assertion of internal control over financial reporting and an audit opinion of the Department's internal controls over its financial reporting. A material weakness pursuant to this 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.

The Department's Internal Control Committee (ICC) oversees the Department's internal control program. ICC membership includes a Senior Management Council (SMC), an Internal Control Coordination Board (ICCB), and a Senior Assessment Team (SAT). The SMC is comprised of the Department's Chief Financial Officer, Under Secretary for Management, Chief Administrative Services Officer, Chief Human Capital Officer, Chief Information Officer, Chief Information Security Officer, Chief Security Officer, and Chief Procurement Officer. The ICCB seeks to integrate and coordinate internal control assessments with other internal control related activities and includes representatives from all DHS lines of business to address crosscutting internal control issues. Finally, the SAT led by the Chief Financial Officer, is comprised of senior level financial managers assigned to carry out and direct component level internal control assessments.

Individual component assurance statements serve as the primary basis for the Secretary's Management Assurances. The assurance statements are based on information gathered from various sources including management initiated internal control assessments, program reviews, and evaluations. In addition, the Office of Inspector General and the Government Accountability Office conduct reviews, audits, inspections, and investigations.





STRATEGIC GOAL 7 - ORGANIZATIONAL EXCELLENCE			
STRATEGIC OBJECTIVES SUPPORTING GOAL 7			FY 06 Net Cost (in millions)
7.1 Value our people.			\$ 75.8
7.2 Drive toward a single departmental culture.			\$ 0
7.3 Continually improve our way of doing business.			\$ 627.5
<b>PERFORMANCE GOALS OF MAJOR PROGRAMS CONTRIBUTING TO OBJECTIVES</b>			<b>Detail on Page</b>
	7.3	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. (Audit, Inspections, and Investigations Program)	150
	7.3	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. (Office of the Chief Information Officer)	151
	7.3	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. (Counterterrorism Fund)	151
	7.3	Provide comprehensive leadership, management, oversight, and support to improve the efficiency and effectiveness of the Department. (Office of the Secretary and Executive Management)	152
7.1	7.3	Improve the effective and efficient delivery of business and management services throughout the Department. (Office of the Under Secretary for Management)	152
	7.3	Develop and Maintain a Department-wide financial system that produces financial data that is timely, reliable, and useful to decision makers; strengthen accountability by ensuring that internal controls are in place across the Department and oversight reviews are conducted (Office of the Chief Financial Officer)	153

NOTE 1: The Net Cost measures the cost of supporting that entire strategic objective, not just the performance goal(s) identified in the table.

NOTE 2: The Secretary's Second Stage Review (2SR) was a major FY 2005 initiative. For FY 2006, additional measures were added in support of strategic objective 7.3. Some of these new measures indirectly support strategic objective 7.2.

## IMPLEMENTING THE PRESIDENT'S MANAGEMENT AGENDA

The *President's Management Agenda* was launched in August 2001 as a strategy for improving the management and performance of the Federal government. It focuses on the areas where deficiencies were most apparent and where the government could begin to deliver concrete, measurable results. The agenda includes five original initiatives: Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanding Electronic Government, and Budget and Performance Integration. In addition to these initiatives, two new initiatives were subsequently added to the scorecard: Eliminating Improper Payments and Real Property. We have embraced the agenda since the Department was established in 2003 and have made steady progress each fiscal year. The Office of Management and Budget (OMB) regularly assesses our implementation of the agenda, issuing an Executive Branch Management Scorecard rating of green, yellow or red for both status and progress to achieve standards for each initiative. Overall, the Department improved in 2 of the status categories from last year's scorecard. The Department went from red to yellow in Eliminating Improper Payments and Real Property. The scorecard for the period ending September 30, 2006 rated the Department's status as green on zero (0) of the seven initiatives, yellow on 5 initiatives and red on the remaining 2. Progress scores were 4 green, 1 yellow and 2 red. Each year the standards for attaining green in the progress area are made more demanding. The Department continues to demonstrate progress in implementing government-wide program-specific initiatives. More detailed information regarding our progress may be found in the *Other Management Information, Initiatives, and Issues* section of this report, on page 72. A high level view of our progress, as rated by the scorecard is provided below.

PRESIDENT'S MANAGEMENT AGENDA SCORECARD				
(As of September 30, 2006)				
	Status			Progress
	FY04	FY05	FY06	FY06
Human Capital				
Competitive Sourcing				
Financial Performance				
E-Government				
Budget & Performance				
Eliminating Improper Payments *				
Real Property *				
* Program-Specific Initiatives				

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

## HIGHLIGHTS

Significant accomplishments during fiscal year 2006 in achieving Organizational Excellence goals and objectives include the following:

**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

- Developed and successfully implemented an Enterprise Architecture (EA) to guide investment decisions and systems development activities for the department.
- Completed security certification and accreditation for 95 percent of the department's systems at the end of FY 2006, up from 35 percent at the beginning of the fiscal year.
- Complied with the FY 08 budget process requirement for identifying Federal Information Security Management Act (FISMA) systems that pertain to each major IT investment. Requiring that each FISMA system be mapped to an investment has resulted in a more accurate accounting for IT spending.
- Mapped all DHS IT investments to functional and IT portfolios, and developed portfolio cost reports.

**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.

- Developed the first accurate and current inventory of DHS real property assets. This inventory includes all installations, buildings, structures and land owned and operated in support of DHS missions.
- Published the DHS Asset Management Plan in June 2006.
- Established DHS-wide councils that provide management focus on real property across the Department and its components.

## 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 alternative 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 eGov 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 are 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 as we work to move from periodic analysis to an ongoing project-by-project based capability.

## 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, 2006 and 2005**  
(In Millions)

	<b>FY 2006</b>	<b>FY 2005</b>	<b>Change</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	
<b>ASSETS</b>			
Intragovernmental Assets	\$63,773	\$101,048	\$(37,275)
Tax, Duties and Trade Receivables, Net	1,755	1,400	355
General Property, Plant and Equipment, Net	11,036	10,460	576
Other	2,669	1,588	1,081
<b>Total Assets</b>	<b>\$79,233</b>	<b>\$114,496</b>	<b>\$(35,263)</b>
<b>LIABILITIES</b>			
Intragovernmental Liabilities	\$21,665	\$3,135	\$18,530
Insurance Liabilities	3,567	23,433	(19,866)
Accrued Payroll and Benefits	1,362	1,366	(4)
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<b>Total Liabilities (Note 17)</b>	<b>\$70,887</b>	<b>\$69,212</b>	<b>\$1,675</b>
<b>Net Position</b>			
Unexpended Appropriations	48,102	87,131	(39,029)
Cumulative Results of Operations	(39,756)	(41,847)	2,091
<b>Total Net Position</b>	<b>\$8,346</b>	<b>\$45,284</b>	<b>\$(36,938)</b>
<b>Total Liabilities and Net Position</b>	<b>\$79,233</b>	<b>\$114,496</b>	<b>\$(35,263)</b>

Figure 1. Department's Consolidated Balance Sheet (Condensed)

### ASSETS

**I**n fiscal year 2006, the Department's assets totaled \$79,233 million. This is a decrease of \$35,263 million over the prior year's assets totaling \$114,496 million. The major portion of the decrease in Total Assets is in Intragovernmental Assets which is made up of primarily Fund Balance with Treasury and Advances and Prepayments. Intragovernmental Assets and General Property, Plant, and Equipment comprise 94% of total assets. Figure 2 summarizes the Department's assets as of September 30, 2006 and September 30, 2005.

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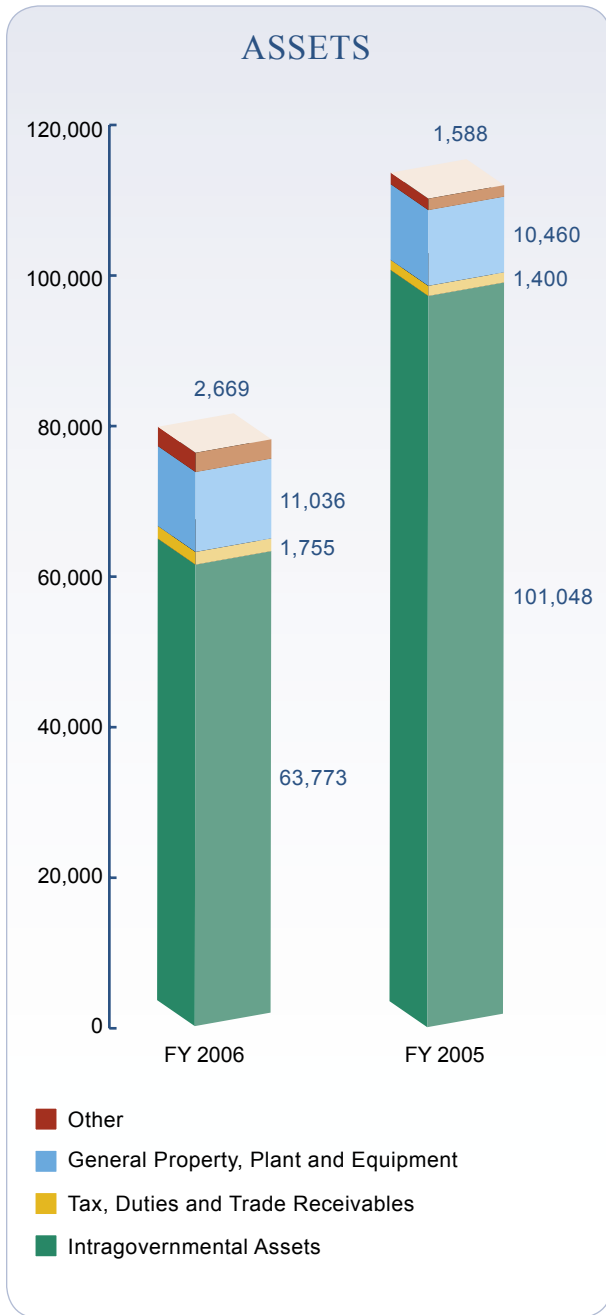


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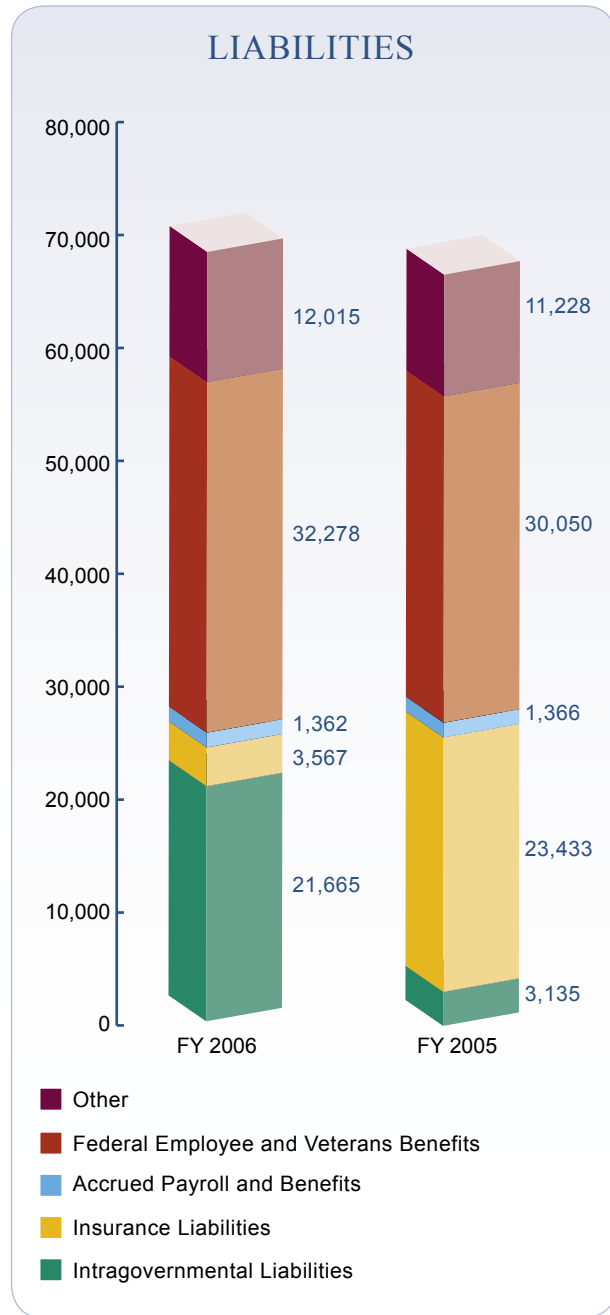


Figure 3. Department Liabilities

## LIABILITIES

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**For the Years Ended September 30, 2006 and 2005**  
(In Millions)

<b>Cost by Directorate and Component</b>	<b>FY 2006</b>	<b>FY 2005</b>	<b>Change</b>
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<b>Net Cost of Operations</b>	<b>\$54,318</b>	<b>\$65,866</b>	<b>\$(11,548)</b>

Figure 4. Department's Statement of Net Cost (Condensed)

## REVENUES

**D**uring fiscal year 2006, the Department earned approximately \$8,163 million in revenues; this is an increase of about \$550 million from the restated amount of \$7,613 million on September 30, 2005.

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.

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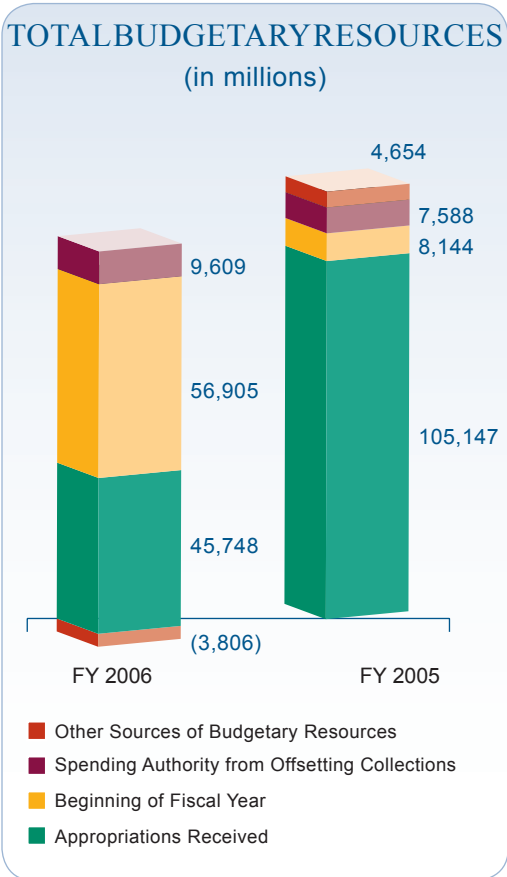


Figure 5. Total Budgetary Resources

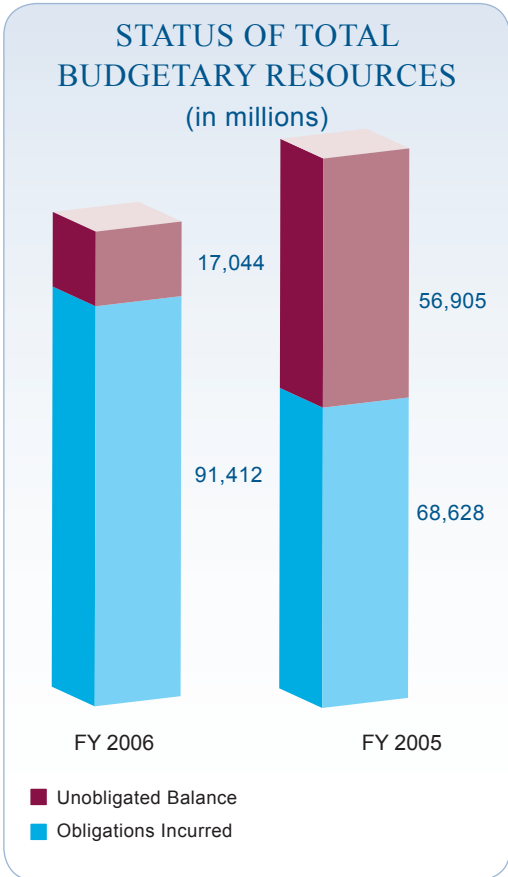


Figure 6. Status of Total Budgetary Resources

## ANALYSIS OF INTERNAL CONTROLS, SYSTEMS, AND LEGAL COMPLIANCE

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- Significantly weakens established safeguards against waste, loss, unauthorized use or misappropriation of funds, property, other assets or conflicts of interest; and
- Financial management systems conformance to government-wide systems requirements.

In addition, the Department of Homeland Security Financial Accountability Act, P.L. 108-330, requires a separate assertion of internal control over financial reporting and an audit opinion of the Department's internal controls over its financial reporting. A material weakness pursuant to this 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.

The Department's Internal Control Committee (ICC) oversees the Department's internal control program. ICC membership includes a Senior Management Council (SMC), an Internal Control Coordination Board (ICCB), and a Senior Assessment Team (SAT). The SMC is comprised of the Department's Chief Financial Officer, Under Secretary for Management, Chief Administrative Services Officer, Chief Human Capital Officer, Chief Information Officer, Chief Information Security Officer, Chief Security Officer, and Chief Procurement Officer. The ICCB seeks to integrate and coordinate internal control assessments with other internal control related activities and includes representatives from all DHS lines of business to address crosscutting internal control issues. Finally, the SAT led by the Chief Financial Officer, is comprised of senior level financial managers assigned to carry out and direct component level internal control assessments.

Individual component assurance statements serve as the primary basis for the Secretary's Management Assurances. The assurance statements are based on information gathered from various sources including management initiated internal control assessments, program reviews, and evaluations. In addition, the Office of Inspector General and the Government Accountability Office conduct reviews, audits, inspections, and investigations.



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



# Homeland Security

## SECRETARY'S MANAGEMENT ASSURANCES

The Department of Homeland Security is committed to addressing the root causes of material weakness conditions and 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 Federal Managers' Financial Integrity Act and the Department of Homeland Security Financial Accountability Act, I have directed an evaluation of internal controls at the Department of Homeland Security in effect during the fiscal year ended September 30, 2006. This evaluation was conducted in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control*, Revised December 21, 2004. Based on the results of this evaluation, 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;
- Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security; and
- The National Flood Insurance Program.

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 and Entity Level Controls;
- Financial Reporting Process;
- Financial System Security;
- Reconciling Fund Balances with Treasury;
- Accounting for Property, Plant, and Equipment;
- Accounting for Operating Materials and Supplies
- Accounting for Accounts and Grants Payable, and Legal Contingencies;
- Actuarial Liabilities;
- Budgetary Accounting and Undelivered Orders; and
- Reconciling Intragovernmental and Intradepartmental Balances.

**Reporting Pursuant to the 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; and
- Noncompliance with the U.S. Standard General Ledger.

A handwritten signature in black ink, appearing to read "Michael Chertoff", with a long horizontal stroke extending to the right.

Michael Chertoff  
Secretary Department of Homeland Security

Office of Inspector General


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



**Homeland  
Security**

November 15, 2006

MEMORANDUM FOR: The Honorable Michael Chertoff  
Secretary

FROM:   
Richard L. Skinner  
Inspector General

SUBJECT: Independent Auditors' Report on DHS' FY 2006 Internal Controls  
over Financial Reporting

The attached report presents our independent auditors' opinion on internal controls over financial reporting as of September 30, 2006, based on the criteria established under the Federal Managers' Financial Integrity Act (FMFIA). DHS management is responsible for establishing and maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of DHS' internal control based on our examination.

The Department of Homeland Security Financial Accountability Act (The Act) (P.L. 108-330) was established to amend title 31 of the United States Code, to improve the financial accountability requirements applicable to the Department of Homeland Security (DHS). The Act also amended the Chief Financial Officers Act (CFO Act) of 1990 to include DHS as one of the federal agencies where the Chief Financial Officer is a Presidential appointee and reports directly to the Secretary.

Section 4 of The Act requires that the Secretary of Homeland Security include an audit opinion of the Department's internal controls over its financial reporting in each performance and accountability report beginning after fiscal year 2005.

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

Attachment

Office of Inspector General

U.S. Department of Homeland Security



**Homeland  
Security**

November 15, 2006

We have examined the effectiveness of DHS' internal control over financial reporting as of September 30, 2006 based on the criteria established under the Federal Managers' Financial Integrity Act (FMFIA). DHS management is responsible for establishing and maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of DHS' internal control based on our examination.

Our examination was conducted in accordance with U.S generally accepted government auditing standards. It included obtaining an understanding of the internal control over financial reporting and performing such other procedures as we considered necessary to render our opinion. We believe that our examination and the report of the independent auditor provide a reasonable basis for our opinion.


Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may change, or that the degree of compliance with the policies or procedures may deteriorate.

During fiscal year 2006, the following reportable conditions were identified by an independent auditor, which are considered material weaknesses.

- Financial Management Oversight (Entity Level Controls);
- Financial Reporting;
- Financial Systems Security;
- Fund Balance with Treasury;
- Property, Plant and Equipment;
- Operating Materials and Supplies;
- Legal and Other Liabilities;
- Actuarial Liabilities;
- Budgetary Accounting; and
- Intragovernmental and Intradepartmental Balances.

A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that material misstatements in the financial statements will be prevented or detected on a timely basis. Due to the issues noted above, additional material weaknesses may exist that have not been reported.

Because of the effects of the above mentioned material weaknesses, in our opinion, DHS did not maintain effective internal control as of September 30, 2006, to meet the following objectives: (1) transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements and stewardship information in conformity with GAAP, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with laws governing the use of budget authority and with other significant laws and regulations that could have a direct and material effect on the financial statements and stewardship information. Consequently, DHS' internal control did not provide reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements or to stewardship information would be prevented or detected on a timely basis.

  
Richard L. Skinner  
Inspector General


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



**Homeland  
Security**

**November 15, 2006**

**MEMORANDUM FOR:** Richard L. Skinner, Inspector General

**FROM:** David L. Norquist, Chief Financial Officer 

**SUBJECT:** Audit Opinion of the Department's Internal Controls over  
Financial Reporting

Thank you for the opportunity to review your draft audit opinion of the Department's internal controls over financial reporting. I agree with your draft audit report's conclusions and I am pleased that we have implemented the audit opinion requirement of the Department of Homeland Security Financial Accountability Act. I want to emphasize that I will continue to work with your office to ensure that inherited material weaknesses do not become ingrained into our operations. As we conclude the second year of implementing the Act, I appreciate our professional relationship and your office's efforts to establish an appropriate level of ongoing performance reporting that assesses and compliments management's corrective action efforts. The utility of your performance audits continues to develop through our combined efforts. I look forward to continuing this productive and successful relationship in FY 2007.

## GAO HIGH RISK AREAS

**D**HS' transformation was designated as a high risk area in FY 2003 because DHS had to transform 22 agencies into one Department and inherited a number of operational and management challenges from legacy components. In FY 2005, the GAO designated establishing appropriate and effective information sharing mechanisms as a high risk area to improve processes and procedures for partnering and coordinating efforts across the Federal government and within the private sector. In FY 2006, the GAO designated the National Flood Insurance Program as a high risk area due to the unprecedented magnitude and severity of flood losses resulting from hurricanes in FY 2005 and the extent to which the Federal government has exposure for flood claims coverage in catastrophic loss years.

DHS has made significant progress implementing the recommendations presented in GAO's updates; particularly in strategic planning, threat and risk assessments, financial management, information management, human capital and acquisition management. The Department will continue to strive for excellence in these areas. Progress in these areas is reported on in more detail within the related sections of Management's Response to the Office of the Inspector General's (OIG's) Reporting on Major Management Challenges section of the PAR.

## CORRECTIVE ACTION PLANS

**D**HS efforts in FY 2006 focused on strengthening corrective action plans and identifying areas where assurance can be provided. Most notably, the Department transformed its corrective action planning process to focus on identifying the root causes and issues underlying our pervasive weaknesses. The Department assessed the design of internal controls and prioritized plans to address internal control deficiencies by focusing on the elimination of pervasive material weaknesses. Over the past year, DHS has:

- Formalized the corrective action planning process through a Management Directive, guidance, and training.
- Implemented an automated corrective action tracking system to ensure progress is tracked and management is held accountable for progress.
- Developed a corrective action strategic planning process for improving financial management at DHS.
- Worked with the OMB to monitor corrective action plans.
- Established ongoing reporting by the DHS OIG that assesses and compliments management's corrective action efforts through performance audits.
- Executed the first phase of our OMB approved multi-year plan to implement a comprehensive internal control assessment pursuant to OMB Circular No. A-123 Appendix A, Management's Responsibility for Internal Control guidelines.

The following table presents a chart of Financial Audit Related Material Weaknesses, Reportable Conditions, and Noncompliance with Laws and Regulations by DHS from FY 2003 through FY 2006.



	FY 2003	FY 2004	FY 2005	FY 2006	FY 2006 Component Progress
<b>Material Weaknesses</b>	7	10	10	10	ICE, FEMA, GT, and DHS Components services by ICE
<b>Reportable Conditions</b>	7	3	2	2	CBP
<b>Noncompliance with Laws and Regulations</b>	3	4	7	8	
<b>Total</b>	17	17	19	20	

Although the Department's material weakness count remains at 10, significant progress was accomplished in FY 2006. Most notably, ICE eliminated pervasive material weakness conditions and was removed from six material weaknesses. In addition, ICE has made improvements for components for which they provide accounting services. This improvement was attributable to the leadership of the Assistant Secretary for ICE and the efforts of the ICE Chief Financial Officer to stabilize the control environment and focus on pervasive material weakness conditions. In addition, progress in implementing the DHS Financial Accountability Act continued with the Department's Chief Financial Officer's confirmation by the U.S. Senate. The increase in noncompliance with laws and regulations is attributable to a new finding related to the Debt Collection Improvement Act of 1996. The table below summarizes material weaknesses in internal controls as well as planned corrective actions with estimated target correction dates.

<b>Material Weaknesses in Internal Controls Over Financial Reporting</b>	<b>DHS Component</b>	<b>Corrective Actions</b>	<b>Target Correction Date</b>
<p><b>Financial Management Oversight and Entity Level Internal Controls:</b> DHS has not stabilized entity level controls related to the DHS control environment due to challenges surrounding the stand-up of the Department in FY 2003 and subsequent re-organizations in FY 2005 and FY 2006. Several key factors are needed to strengthen the control environment, including the development of human capital, cultural transformations, organizational structures, and financial management/oversight monitoring mechanisms. The Department is responsible for the establishment, maintenance, and assessment of internal controls to meet the objectives of the <i>Federal Managers' Financial Integrity Act</i>.</p>	DHS OFM, USCG, and FEMA	The DHS OCFO will hire additional staff as suggested by the auditors and authorized by Congress. In addition, the OCFO will perform a study to identify additional training or organizational structure changes required. The Commandant of the USCG will lead a Financial Management Transformation Initiative designed to strengthen the USCG's financial management infrastructure. FEMA will coordinate corrective actions with the recent organizational changes mandated in the FY 2007 Homeland Security Appropriations Act, which combined FEMA and portions of the Preparedness Directorate.	FY 2009

Material Weaknesses in Internal Controls Over Financial Reporting	DHS Component	Corrective Actions	Target Correction Date
<p><b>Financial Reporting Process:</b> DHS has not established an effective financial reporting process due to limited staffing resources, informal policies and procedures, and lack of integrated financial processes and systems. The <i>Department of Homeland Security Financial Accountability Act</i> amended the <i>Chief Financial Officers Act</i> to include DHS as a CFO Act agency. As a result, DHS is required to submit to the Congress and OMB audited financial statements. Currently, due to pervasive material weakness conditions, DHS has engaged an independent auditor to perform a balance sheet and statement of custodial activity only audit.</p>	<p>DHS OFM, USCG, and TSA</p>	<p>The DHS OCFO will develop comprehensive policies and procedures to establish effective Department-wide financial reporting control activities. USCG will improve policies and procedures surrounding account reconciliations and abnormal balances, and will implement Oracle system and process enhancements. TSA will improve policies and procedures for period end closings, and continue to work with the USCG to monitor and coordinate the resolution of financial reporting challenges.</p>	<p>FY 2010</p>
<p><b>Financial Systems Security:</b> The Department's Independent Public Accountant had identified Financial Systems Security as a material weakness in internal controls since FY 2003 due to a myriad of inherited control deficiencies surrounding general computer and application controls. The <i>Federal Information Security Management Act</i> mandates that Federal Agencies maintain IT security programs in accordance with OMB and National Institute of Standards and Technology guidance.</p>	<p>Department-wide</p>	<p>Additional financial audit support for DHS components will be provided from the Offices of the Chief Financial Officer and the Chief Information Security Officer in order to increase common FISMA and Federal Information System Controls Audit Manual (FISCAM) security control alignment based on: FIPS 199 Information Categories for Financial Reporting; POA&amp;M reviews to ensure Component based Financial Audit Notice of Findings and Recommendations (NFRs) are being closed in a timely manner; General security control convergence based on NIST SP 800-53 and A-123 control categories for financially significant systems; Identified gaps between the A-123 requirements and existing DHS requirements (including NIST SP 800-53) and adjusting policy as appropriate; and Component OCFO C&amp;A Review and Approval for all Financial Significant Systems.</p>	<p>FY 2008</p>

Material Weaknesses in Internal Controls Over Financial Reporting	DHS Component	Corrective Actions	Target Correction Date
<p><b>Reconciling Fund Balance with Treasury:</b> USCG did not implement effective internal controls to accurately clear suspense transactions in order to perform accurate and timely reconciliations of Fund Balance with Treasury accounts.</p>	<p>USCG</p>	<p>USCG will develop policies and procedures for Fund Balance with Treasury (FBWT) which establish effective controls including monthly FBWT analyses, FBWT reconciliations, and suspense account clearing.</p>	<p>FY 2010</p>
<p><b>Accounting for Property, Plant, and Equipment (PP&amp;E):</b> The controls and related processes surrounding USCG PP&amp;E to accurately and consistently record PP&amp;E are either not in place or contain errors and omissions. For example, physical inventory processes for PP&amp;E and the methodologies and assumptions to support the total value of PP&amp;E are not yet fully developed and implemented. Asset identification, mapping, and tagging are also areas of weakness within PP&amp;E at the USCG. TSA has not implemented adequate policies and procedures to properly account for its property balances. The DHS OCFO and US-VISIT have not implemented policies and procedures to identify and account for software capitalization. As a result, DHS has not implemented SFFAS No. 6, <i>Accounting for Property, Plant, and Equipment</i> and SFFAS No. 10, <i>Accounting for Internal Use Software</i>.</p>	<p>USCG, TSA, and US-VISIT</p>	<p>USCG Property, Plant, and Equipment Corrective Actions are categorized into four categories: 1) In the area of repairable spares, USCG will centralize logistics management to a single set of policies and procedures, using a known CFO Act compliant business model to lower project risk and accelerate logistics transformation; 2) For real property management, USCG will transform the agency's real property data to the Department of Defense (DoD) methodology for classifying real property; 3) In the area of personal property, USCG will use inspection and assistance visits to units to validate internal control remediation efforts and suggest improvements in the design of controls to ensure units are making credible progress; and 4) For the Capital Investment Plan (CIP), the USCG will ensure complete policies are issued to support key assertions related to existence, completeness, and valuation for capitalized assets. US-VISIT, in conjunction with the DHS OCFO, will develop policies and procedures to account for software capitalization in accordance with SFFAS No. 10. The DHS OCFO will monitor corrective actions developed by TSA to address this new material weakness condition, within the first quarter of FY 2007.</p>	<p>FY 2010</p>

Material Weaknesses in Internal Controls Over Financial Reporting	DHS Component	Corrective Actions	Target Correction Date
<p><b>Accounting for Operating Materials and Supplies:</b> Internal controls and related policies and procedures for physical inventory counts at USCG field locations have not been completely developed and implemented. As a result, DHS has not implemented SFFAS No. 3, <i>Accounting for Inventory and Related Property</i>.</p>	<p>USCG</p>	<p>The USCG will: centralize logistics management policies and procedures using a known CFO Act compliant business model to lower project risk; develop a requirements (maintenance) based allowance system; implement integrated financial and logistics technology to support the logistics business model; remove excess and obsolete material from field units to reduce the field held inventory footprint to a manageable level; and re-baseline unit inventory through the execution of wall to wall physical inventories and on-site management oversight.</p>	<p>FY 2009</p>
<p><b>Accounting for Accounts and Grants Payable, and Legal Contingencies:</b> Accounts payable and related obligations were identified as not complete, or recorded in an accurate and timely manner (including recording disbursements made by legacy agencies), and lacked proper approvals and supporting documentation. In addition, accrual methodologies were inconsistently applied and the monitoring of grant audits needs improvement in order to comply with the <i>Single Audit Act</i>. Finally, a scope limitation prevented the Independent Public Accountant from completing procedures for legal liabilities. As a result, DHS has not implemented SFFAS No. 1, <i>Accounting for Selected Assets and Liabilities</i>.</p>	<p>DHS OFM, FEMA, G&amp;T, TSA, and USCG</p>	<p>The DHS OCFO will work with Components to develop policies and procedures for accounts payable and undelivered orders to ensure that the recording of obligations are complete, accurate, and timely with proper approvals and supporting documentation. The DHS OCFO will also develop policies and procedures to improve the legal liability reporting process. DHS Components will implement verification and validation procedures to ensure the quality of information. DHS Components will also consistently document accrual methodologies and monitor grant audits. FEMA will coordinate corrective actions with the recent organizational changes mandated in the FY 2007 Homeland Security Appropriations Act, which combined FEMA and portions of the Preparedness Directorate.</p>	<p>FY 2009</p>

Material Weaknesses in Internal Controls Over Financial Reporting	DHS Component	Corrective Actions	Target Correction Date
<p><b>Actuarial Liabilities:</b> USCG has not implemented effective internal controls over the accuracy of the data used to prepare the calculations surrounding the actuarial pension liability, post employment medical liability and the post employment travel benefit liability. As a result, DHS has not implemented SFFAS No. 5, <i>Accounting for Liabilities of the Federal Government</i>.</p>	<p>USCG</p>	<p>USCG will implement a unified financial management system (Core Accounting System) to improve the accuracy and completeness of the underlying participant human resource data provided to the actuary. In addition, USCG will develop sufficient financial and human capital resources, trained with the correct skill sets and competencies, including financial management, to properly manage pension and medical accounts.</p>	<p>FY 2009</p>
<p><b>Budgetary Accounting and Undelivered Orders:</b> Accounts payable and obligations were identified as not recorded accurately and timely in the financial systems of DHS Components, which could lead to non-compliance with laws and regulations such as the <i>Anti-Deficiency Act</i>. Specifically, there is a need for overall improved recording, monitoring, reporting, and close outs over all DHS obligations and reconciling budgetary vs. proprietary account relationships.</p>	<p>ICE, USCG, TSA, FEMA, US-VISIT, and DHS MGMT</p>	<p>The DHS OCFO will work with Components to develop policies and procedures for budgetary accounting which allow DHS financial management personnel to establish effective controls and properly record and close out obligations. DHS Components will ensure that obligations are recorded and reconciled in an accurate and timely manner and supported with proper documentation.</p>	<p>FY 2009</p>

Material Weaknesses in Internal Controls Over Financial Reporting	DHS Component	Corrective Actions	Target Correction Date
<p><b>Reconciling Intragovernmental and Intradepartmental Balances:</b> DHS and Components have not fully implemented policies and procedures to routinely identify and reconcile intragovernmental and intradepartmental balances and transactions with trading partners to ensure balances properly eliminate in the government-wide and DHS consolidated financial statements.</p>	<p>DHS OFM</p>	<p>The DHS OCFO will issue policies and procedures to establish clear roles and responsibilities that allow DHS Component financial management personnel to establish effective controls over governmental transaction accounting and reporting. These policies and procedures will address development of a four digit trading partner to ALC crosswalk, timely dissemination of FMS elimination updates and ranking and reaching out to the largest trading partners and sharing usage reports by agreement. Further, regular training for procurement staff handling inter-governmental agreements as well as accounting staff maintaining vendor table data will be developed. The DHS OCFO will dedicate additional resources to assist the components in the reconciliation process. Finally, when all other outlets have been exhausted, there must be a process implemented for timely CFO to CFO communications to resolve material discrepancies and/or CFO Council support for resolving inter-agency trading partner issues.</p>	<p>FY 2009</p>

## FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

**T**he Federal Financial Management Improvement Act of 1996 (FFMIA) requires Federal agencies to implement and maintain financial management systems that comply substantially with: (1) Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) the U.S. Standard General Ledger at the transaction level. In assessing compliance with FFMIA, DHS utilizes OMB guidance and considers the results of the OIG, annual financial statement audits, and Federal Information Security Management Act (FISMA) compliance reviews. As reported in the Secretary's Management Assurance Statements, DHS financial management systems do not substantially conform to government-wide requirements, however, significant progress has been made to certify and accredit all financial management systems in accordance with the FISMA.

### Financial Systems Framework

**Department-wide Initiatives:** On September 13, 2006, the Department's CFO testified before Congress that DHS' goals for improving its financial systems have not changed and a major effort remains to improve all of its resource management systems. Rather than focus only on systems, the CFO is currently developing an overarching strategy to address challenges in the areas of people, process, policy, and assurances to achieve the Department's goals of obtaining a clean audit opinion, establishing sound internal controls, and improving the efficiency of financial operations. DHS understands that some systems are aging; that some fail to meet all user requirements; and that some are not fully integrated with finance, procurement, logistics, and asset management. To meet these needs, rather than acquiring, configuring, and implementing a new system within DHS, we are planning to fully leverage investments that have already been made in people, process, and systems. Migration is only one component of an improvement program and can be costly and risky, takes time and effort, and is very disruptive. Consequently, no migrations will be considered unless: 1) DHS knows that a system is a root cause of a problem, and 2) the benefits of a migration outweigh the costs. Before DHS makes any migrations, major upgrades, or consolidations, DHS will prepare a business case that assesses the impacts and benefits. Currently, DHS is completing a business case and is compiling the information necessary to assess the quality of its systems, using, in part, work done in past audits, as well as reviews performed under **eMerge**<sup>2</sup>.

The DHS plan looks beyond immediate systems improvements to include the strengthening of internal controls. Based on OMB's Circular A-127, *Financial Management Systems* guidance and the objectives of FFMIA, DHS plans to strengthen the integration of internal control over financial reporting process level assessments by addressing process, people, policy, and system problems concurrently and collaboratively to ensure improvements are made effectively. An initial triage will be conducted over the next several months to determine which systems today meet the basic standards for financial management and which can meet standards with modest improvement. We will look to leverage these systems first as solutions for those components currently using systems that fail to meet standards. Once the systems triage has been completed, we will employ, on an ongoing basis, a combined process and system approach to monitor status and to assess progress made on corrective action plans. We will use performance metrics and ongoing operational analyses, in conjunction with a business case, to determine whether to continue, improve, or discontinue supporting systems.

DHS will use an integrated project team approach to design and implement internal controls and to improve the effectiveness and efficiency of financial operations, leveraging the process designs created during the first phase of the **eMerge**<sup>2</sup> program as the framework of change. The framework integrates people, process, policy, system, and assurance activities and ensures that systems capabilities are fully leveraged in establishing controls and in improving operations.

The CFO will leverage other opportunities to improve systems, such as organizational changes, major lifecycle milestones, and findings and recommendations from ongoing operational analyses.



**CBP:** As part of CBP's continuing efforts to modernize its financial systems, an Enterprise Resource Planning (ERP) system solution, Systems, Applications and Products (SAP) was successfully implemented. CBP is now beginning its third year of operation using SAP and deriving the expected benefits. SAP provides the tools for enhanced customer service and facilitates a shift in the role of finance from a transaction process/record-keeping function to a more analytical and integrated decision-making function. CBP utilizes SAP as an integrated solution for its Budget, Procurement, Asset Management, Finance, and Reporting business processes. 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 future holds many prospects for expanding and improving the SAP system at CBP. New systems being planned for and developed will be interfaced, such as the CBP future eTravel system. These plans cannot exclude continued efforts to build on the momentum the CBP Modernization Office has created in developing SAP as a core revenue accounting system for the Automated Commercial Environment (ACE). Many successes have been realized by the implementation of SAP at CBP, and more will 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 2006, the FLETC awarded a multi-year contract for the development and implementation of the Student Administration Scheduling System (SASS). The SASS will replace the antiquated Student Information System (SIS) and will integrate the FLETC's numerous manual and partially automated processes in training administration. The SASS will also enable the FLETC to apply standardized scheduling priorities enterprise-wide and to thoroughly analyze all aspects of program and facility scheduling, as well as student administration functions. These tools will provide information necessary to efficiently utilize current resources, plan for future requirements, and more effectively respond to the training needs of the FLETC's partner organizations. As with the SIS, the SASS data on student and course attendance are essential billing information that will be uploaded via an interface to the financial management system.

**TSA:** At the beginning of FY 2005, TSA migrated its financial management operations from the Department of Transportation (DoT) financial management 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), Finance and Procurement Desktop (a front-end tool that enables program and field office personnel to execute requisitions and track spending online), Markview invoice imaging and routing system, and Sunflower Asset Management System. 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 up on the successful financial systems transition, both TSA and the USCG migrated its payroll processing function from DOT to the U.S. Department of Agriculture's National Finance Center (NFC) systems in August 2005. This transition put TSA on the same payroll platform as all other Components and has resulted in more efficient payroll services for TSA employees. An interface from NFC to the Core Accounting System ensures that payroll costs are accurately accounted for in the general ledger.

In FY 2006, TSA continued its efforts to improve financial management and systems through the increased use of the Contract Information Management System (CIMS). CIMS, an adaptation of the widely used PRISM software, is gradually replacing TSA's current manual contract writing process. In addition to easing the administrative burden of developing government contracts, CIMS interfaces with the Core Accounting System to liquidate commitments and post obligations; processes that in the past have required manual data entry.

TSA's efforts to improve financial management and systems will continue in FY 2007. TSA's focus will be on correcting

financial system weaknesses previously identified by auditors. New system capabilities will be implemented to strengthen funds control.

**ICE:** In March 2006, the ICE CFO and CIO agreed to transfer technical responsibilities for the Federal Financial Management System (FFMS) and Travel Management System (TMS) from the ICE Office of Financial Management to the ICE Chief Information Officer. The transition placed the responsibility for system performance and maintenance under the auspices of the OCIO. Since that transfer, the payroll and travel manager financial system interfaces were rewritten to substantially decrease the amount of time required to process transactions. Additionally, a major effort went into fine tuning reports and stabilizing report servers.

PRISM continues to be in use throughout all ICE procurement offices. During FY 2006, an interface to FFMS was designed, developed, and accepted. It is currently on hold for deployment awaiting DHS OCIO re-hosting of PRISM.

## FEDERAL INFORMATION SECURITY MANAGEMENT ACT

**T**he E-Government Act of 2002 (Public Law 107-347) Title III FISMA provided a framework to ensure the effectiveness of security controls over information resources that support Federal operations and assets. FISMA introduced 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 addition, 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. The committee report identified four weaknesses in the information security program. In FY 2006, the Department completed a number of improvements which have significantly improved DHS information system security compliance.

### Policy and Guidance

A number of updates to the DHS Information Security policy directives (DHS MD 4300A) were issued over the past year, with the latest Version 4.2 dated September 29, 2006, published on the DHS intranet Web site at <https://dhsonline.dh.gov/portal/>. Since October 2005, policies have been added and updated to address: Contingency Planning, Remote Access, Personally Identifiable Information, Wireless, IPV6, and Incident Reporting.

The DHS security architecture design guidance Volumes 1, 2, and 3 were also updated this past year and distributed to all HQ and component Information System Security Managers (ISSMs) and Information System Security Officers (ISSOs).

In May 2006, DHS updated agency-wide security configuration policies based on updated hardening configuration guides for Windows 95, Windows XP Professional, Windows NT, Windows 2000 Professional, Windows 2000 Server, Windows 2003 Server, Solaris, HP-UX, Linux, Cisco IOS Routers, Oracle, and SQL Servers.

### Tools and Processes

The Department implemented two enterprise tools to facilitate agency-wide security management and compliance:

- FISMA Tracking Tool, and
- Risk Management Control Tool.

These two information security tools were deployed across DHS starting in April 2005 and the use of these tools was mandated by DHS 4300A Policy and Handbook for all sensitive systems. The automated risk management tool is the basis

for Certification and Accreditation (C&A) compliance with policy for management, operational, and technical controls. The FISMA tool tracks eleven documents mandated for C&A based on NIST SP 800-37, Guide for the Security Certification and Accreditation of Federal Information Systems. FISMA artifacts were also tracked for inventory management, self-assessments, FIPS199 security categorization, privacy threshold assessments, e-authentication assessments, and interconnect security agreements. Extensive training on the C&A process and the use of these tools was provided to DHS ISSMs and ISSOs throughout the year and at the Department's annual security conference.

The Office of Information Security updated the processes supporting Plans of Actions and Milestones (POA&Ms). POA&Ms are used to identify and prioritize security weaknesses at system, program, or departmental levels for remediation. DHS conducted component site visits and provided POA&M training to increase the quality and completeness of POA&M data.

DHS processes were implemented that more effectively tie OMB Exhibit 300s OCIO and CFO portfolios to DHS information system accreditation.

### Information System Inventory

In FY 2005, DHS completed a comprehensive inventory of its sensitive but unclassified systems including agency and contractor systems. The inventory consists of general support systems (GSSs) and major applications (MAs). In the DHS FY 2006 FISMA Report, 692 IT Systems were identified. The DHS inventory is under strict change control. Any additions, deletions or changes to the inventory are tracked to ensure accuracy.

### Certification and Accreditation of Information Systems

The Department's C&A Tool was used to collect Department-wide remediation progress data for C&As across the DHS inventory. DHS certified and accredited 95% of its operational systems by the end of FY 2006, as illustrated in the following figure.

### DEPARTMENT-WIDE REMEDIATION PROGRESS

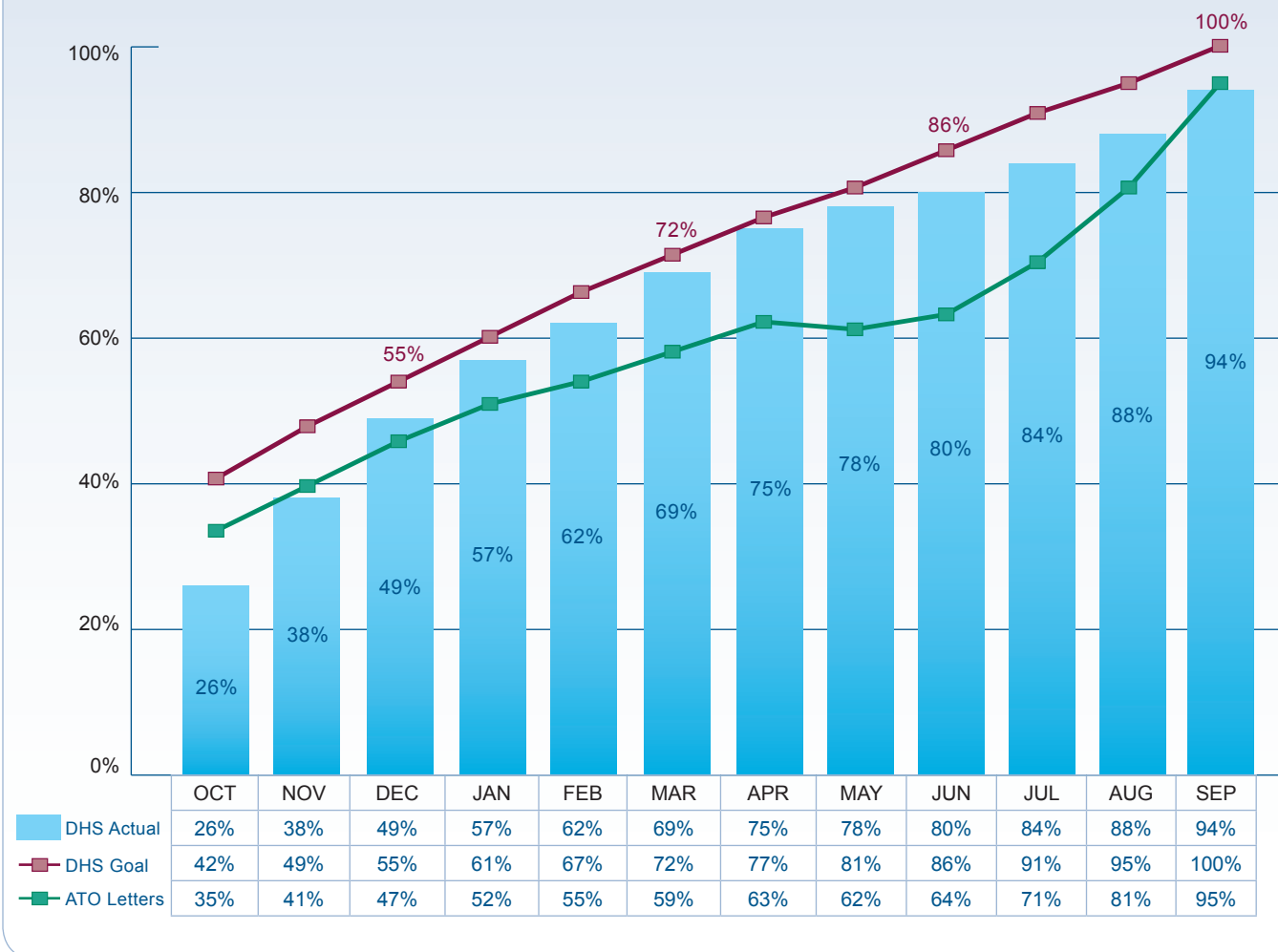


Figure 7. DHS Certification and Accreditation Progress – FY 2006

The DHS Information Security Performance Plan for FY 2007 is to continue “Raising the Bar” on the Department’s information security posture, particularly in the following areas:

- Maintaining a steady state of system C&A’s;
- Raising the quality of the C&A artifacts;
- Increasing support for annual testing of information security controls;
- Providing increased emphasis to close high priority POA&Ms;
- Improving the quality of configuration management processes and reporting;
- Increasing the consistency of incident detection and response reporting; and
- Continuing information security training.

Additional financial audit support for DHS components will be provided from the Offices of the Chief Financial Officer and the Chief Information Security Officer in order to increase common FISMA and Federal Information System Controls Audit Manual (FISCAM) security control alignment based on:

- FIPS 199 Information Categories for Financial Reporting
- POA&M reviews to ensure Component based Financial Audit Notice of Findings and Recommendations (NFRs) are being

closed in a timely manner.

- General security control convergence based on NIST SP 800-53 and A-123 control categories for financially significant systems.
- Identified gaps between the A-123 requirements and existing DHS requirements (including NIST SP 800-53) and adjusting policy as appropriate.
- Component OCFO C&A Review and Approval for all Financial Significant Systems.

## IMPROPER PAYMENTS INFORMATION ACT

**D**HS' improper payments work was dominated by FEMA's examination of Hurricane Katrina disaster relief fund payments. These payments were issued in unprecedented quantities under the most challenging of conditions. FEMA management performed extensive sample payment testing to meet Improper Payments Information Act (IPIA) requirements, to satisfy Congressional inquiries, and to complete an assessment of key internal controls. This testing conclusively showed that FEMA's disaster relief funds are at high risk for issuing improper payments. Testing of Individuals and Household's Program payments yielded an estimated improper payment amount of \$450 million or 8.56% of \$5.25 billion disbursed between September 1, 2005 and March 1, 2006. FEMA's test results varied from GAO report No. GAO-06-844T for the Individuals and Households Program which estimated the error rate at 16% and the error total between \$600 million and \$1.4 billion. Testing of disaster relief fund vendor payments yielded an estimated improper payment amount of \$319 million or 7.44% of \$4.29 billion disbursed between September 1, 2005 and March 1, 2006. For full details, see the IPIA Reporting Details Section of Other Accompanying Information.

FEMA management has already begun to address many internal control deficiencies identified in Government Accounting Office and Inspector General reports and in its own internal control assessment. FEMA management will complete a corrective action plan to reduce improper payments, establish internal controls which are operating effectively, and recoup monies paid in error or due to fraud.

In FY 2006, DHS continued to improve IPIA procedures. Last year, the Department defined IPIA programs by using Treasury Appropriation Fund Symbols (TAFS). This year, the Department worked with Components to group TAFS into readily identifiable IPIA programs. Payment sample testing was expanded from FY 2005's testing of the largest TAFS at each component to the testing of all IPIA Programs with more than \$100 million in relevant disbursements. A statistical team was utilized to design payment sample test plans that would yield significant results per OMB guidance. This statistical team extrapolated results for programs which could exceed the OMB high risk reporting ceilings.

Improper payments testing at CBP, FLETC, ICE, TSA, USCG, and USSS identified that improper payments had been issued but not at rates and amounts exceeding OMB's high risk thresholds. GT did not complete payment sample testing; FEMA did not test non-Disaster payments or non-Katrina Disaster payments; and the USCG did not test FAMS. It is not known whether these programs are at high risk for issuing improper payments.

In addition to management's payment sample testing, the Department is working to establish an effective secondary control by having recovery audit work performed at CBP, ICE, and USCG. This recovery audit work has progressed throughout the year but is not at a point to yield conclusive summary results. Reports to date, however, are consistent with the not at high risk determination which came from management's payment sample testing at these components.

## OTHER KEY LEGAL AND REGULATORY REQUIREMENTS

### Prompt Payment Act

The Prompt Payment Act requires Federal agencies to make timely payments (within 30 days of receipt of invoice) to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts only when they are economically justified. The Department's components submit Prompt Payment data 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 subject to the Prompt Payment Act has remained below 0.1% throughout the August 2005 – August 2006 period that the statistics have been kept (MTS statistics are reported with a six week lag).

### Debt Collection Improvement Act (DCIA)

The DHS OCFO is in the process of developing and implementing comprehensive debt collection regulations that would end the components reliance on legacy agency regulations. The DHS-wide debt collection regulations will provide instructions to the components on meeting the reporting requirements in support of the Debt Collection Improvement Act of 1996 (DCIA). This act established the following purposes:

- To maximize collections of delinquent debts owed to the Federal Government by ensuring quick action to enforce recovery of debts and the use of all appropriate collection tools.
- To minimize the costs of debt collection by consolidating related functions and activities and utilizing interagency teams.
- To reduce losses arising from debt management activities by requiring proper screening of potential borrowers, aggressive monitoring of all accounts, and sharing of information within and among Federal agencies.
- To ensure that the public is fully informed of the Federal Government's debt collection policies and that debtors are cognizant of their financial obligations to repay amounts owed to the Federal Government.
- To ensure that debtors have appropriate due process rights, including the ability to verify, challenge, and compromise claims, and access to administrative appeals procedures which are both reasonable and protect the interests of the United States.
- To encourage agencies, when appropriate, to sell delinquent debt, particularly debts with underlying collateral.
- To rely on the experience and expertise of private sector professionals to provide debt collection services to DHS components.

To achieve these purposes, the Department's goals are to: (1) overcome DCIA deficiencies by having a fair and aggressive program to recover delinquent debt, (2) improve the Department's debt collection performance by promoting the resolution of delinquencies as quickly as possible, and (3) reduce future write-offs of debt by implementing a debt collection strategy, consistent with government-wide and agency requirements, to restore the delinquent debts to current status or, if unsuccessful, maximize collections.

### FY 2006 Biennial User Charges Review

The Chief Financial Officers Act of 1990 requires each agency CFO to review, on a biennial basis, the fees, royalties, rents and other charges imposed by the agency, for services and things of value provided to specific recipients, beyond those received by the general public. The purpose of these reviews is to identify those agencies assessing user fees, and to periodically adjust existing charges to: (1) reflect unanticipated changes in costs or market values; and (2) to review all other agency programs to determine whether fees should be assessed for government services or the use of government goods or services.

A preliminary review of DHS user fees was conducted by the OCFO in FY 2006. This review was based on component FY 2005 data and user fee structures that had been established through the legacy agencies. The review indicates that: (1) changes in statutes and regulations are needed to consolidate some CBP user fee programs; (2) a review of user fee rates is necessary to ensure full allowable costs are being recovered for goods and services provided by CBP and TSA; and (3) the collection and management of user charges need to be simplified, for all components, as a natural progression of the DHS "one face at the border" initiative. The DHS components will continue striving to improve the methodology for a DHS-wide user fee delivery model and seek opportunities to consolidate revenue collection where necessary.

To ensure compliance with this biennial requirement, each DHS component is required to compile and furnish individual summaries for each user fee by addressing the key points for each user fee, in sufficient detail, to facilitate a review by the OCFO. For FY 2005, five DHS components were responsible for collecting forty-eight different user fees covering various services provided to the traveling public and trade community. The following is a detailed analysis of the fee collections and costs of the related services:

- **CBP:** The user fee programs for CBP consist of 38 different fees covering various services provided to passengers and conveyances at ports of entry to the United States. In FY 2005, the fees collection totaled \$1.042 billion and the costs for services provided relative to these fees totaled \$1.676 billion. The shortfall from fee revenue is over \$634 million. A proposed user fee initiative by the CBP would consolidate all user fees that fund CBP inspections and would unify administrative and fee setting authority among the different fees. These changes will result in significant savings to the component and recipient.
- **USCIS:** USCIS is responsible for collecting fees from persons requesting immigration benefits and depositing them into the Immigration Examination Fee Account (IEFA). These fees are used to fund the full cost of processing immigration and naturalization benefit applications and petitions, biometric services, and associated support services. In addition, these fees must recover the cost of providing similar services to asylum and refugee applicants and certain other immigrants at no charge. The IEFA fees generated a total of \$1.533 billion in revenues and \$1.510 billion in expenditures resulting in a surplus of \$23 million. USCIS is currently conducting a new comprehensive review of the resources and activities funded by the IEFA to determine whether the current fees reflect current processes and recover the full costs of services provided.
- **TSA:** TSA is responsible for collecting five different security fees which include: the September 11th Security Fee, the Aviation Security Infrastructure Fee, Fees for Security Threat Assessments for HAZMAT Drivers, Flight Training for Aliens Fee, and the Ronald Reagan Washington National Airport Enhanced Security Procedures for Certain Operations Fees. During FY 2005, TSA collected \$2.212 billion for these five fees. The obligations incurred by TSA for providing these services were \$4.104 billion. This amount exceeded related fee collections by \$1.892 billion.
- **USCG:** The Omnibus Budget Reconciliation Act of 1990 amended 46 U.S.C 2110, removed long-standing prohibitions against charging direct user fees for services provided to commercial vessels and maritime personnel and required the USCG to charge fees for the following services: (1) Merchant Mariner Licensing and Documentation User Fees, (2) Commercial and Recreational Vessel Documentation User Fees, and (3) Vessel Inspection User Fees for U.S. and foreign vessels requiring a certificate of inspection. In FY 2005, the fee collections from these services amounted to \$24.8 million.
- **ICE:** ICE collects fees for the Student Exchange and Visitor Program (SEVP) School Certification and the Student and Exchange Visitor Information System (SEVIS). These programs provide a mechanism for monitoring and providing information on student and exchange visitor status violators. In FY 2005, the fees collected for these two programs totaled \$46.5 million. In addition, Immigration User Fees totaling \$100.5 million were collected by CBP on behalf of ICE and transferred to an Appropriated Earmarked Receipts Account during FY 2005.



## Other Management Information, Initiatives, and Issues

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. The cornerstone of that effort was the President's Management Agenda, under which the Department's management achieved wide-ranging success throughout fiscal year 2006. This section expands upon the highlights presented in the performance section on Organizational Excellence. To see the performance goal results, please refer back to that section.

### SUCCESS UNDER THE PRESIDENTS MANAGEMENT AGENDA

**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.

- To ensure a pipeline for leadership positions, the Department developed and received approval of a DHS Succession Management Plan, which requires the review of leadership needs based on strategic and program plans, the identification of sources of key talent, and the assessment and management of the identified talent. The Department has also announced its first SES Candidate Development Program and has begun evaluating applications.
- The Department made considerable progress in implementing MAXHR, the new performance-based human resources management system. The MAXHR Performance Management Program, including the online ePerformance Tool, has been designed and is now deployed to more than 5,000 employees in Headquarters, the U.S. Coast Guard, Immigration and Customs Enforcement, and the Federal Law Enforcement Training Center. By the end of 2006, coverage will expand to Citizenship and Immigration Services and Customs and Border Protection, bringing the total number of employees covered by MAXHR to approximately 11,000. To date, 350 senior executives and more than 11,000 managers and supervisors have received formal training in performance leadership. In addition, Components have also participated in "goal alignment" sessions to ensure that individual performance goals align with the strategic priorities of the organization.
- To allow employees and managers to focus on crucial missions, the Department continued aggressive initiatives to minimize the time and effort that employees expend in administrative activities. Notably, the Department became the first agency to convert to Electronic Official Personnel Files (e-OPF); converting literally tons of paper personnel files into digitized format that employees easily access online via the web. DHS worked with OPM on this eGov initiative serving as a model for other government agencies. Additionally the Department continued implementing a new web-based time and attendance system "webTA"; this past year Headquarters and the US Secret Service joined other components and by going live, bringing the total number of covered employees to almost 80,000. This system reduces the manual labor dependency of processing paper timesheets; instead, time and leave requests and approvals can be processed online via one intuitive web-based system.
- DHS developed and received approval of its Human Capital Accountability System which will provide regular evaluation of human resources management. The system is designed to ensure that HC programs across the Department are aligned with mission and goals, are in compliance with merit system principles, law, and regulation, and are efficiently and effectively implemented. In FY 2006, a total of 18 audits of human resources operations and/or delegated examining units were conducted by OPM and the Department; corrective actions were identified and have, or are being addressed by the responsible offices.



- The Department submitted a comprehensive Human Resources Professional Improvement Plan to OPM/OMB. DHS combined the nine competencies identified in the government-wide CHCO Council Competency Model with additional competencies identified in research to develop a DHS Competency Model. Based on an assessment of the current workforce, a plan was developed to close the competency gaps. Therefore the HRM Improvement Plan was developed based on the DHS Competency Model and the following four major roles for HR Specialists: Technical Expert, Change Consultant, Strategic Partner, and Coach/Mentor.

**Competitive Sourcing** — competitively examining commercially available mission and support services to determine whether it is more effective to obtain such services from Federal employees, under reimbursable agreements with other Federal agencies or from the private sector;

- The Department made considerable progress in expanding the learning curve, scope and the number of completed OMB Circular A-76 competitions in FY 06 and, based on that experience, approved a revised Green Plan for conducting future competitions that expects to compete over 18,000 FTE. Five Streamlined and two Standard competitions were completed in FY 06, bringing the total number of completed competitions since 2003 to seventeen. Over 500 in-house FTE have now been involved in these competitions. More importantly, the Department expanded the scope of the program to include more Components and apply a wider range of functions to the dynamics of competition with associated performance and cost metrics.
- The Department completed the first Tri-Bureau competition of its language translation function, involving FTE from CIS, CBP and ICE. This competition facilitated the restructuring of legacy agency support involving over 100 different language requirements.
- The USCG completed its Civil Engineering Unit High Performing Organization (HPO) review – the largest HPO review yet conducted at 554 FTE. As described in the Revised OMB Circular A-76, HPO reviews offer an alternative to conducting formal competitions with the private sector by applying the analytic rigor of an A-76 competition to an organization involving, in this case, civilian and military inherently governmental and commercial FTE.
- The Department submitted its 2006 Federal Activities Inventory Reform Act listing of commercial and inherently governmental FTE covering over 178,000 FTE. Over 77,000 of these FTE were listed by organization, function and location as performing commercial types of work (43 percent). Of the 77,000 DHS FTE listed as performing commercial work, in an agency that is largely oriented to law enforcement and federal disaster planning and recovery, 58,000 have been either exempted from competition by law or it has been found that in-house performance is required with related narrative justifications, by function and location. This inventory serves as baseline for determining the scope of the Department's competition requirements and for workforce planning.

**Improved Financial Performance** — accurately accounting for the taxpayers' money and giving managers timely and accurate program cost information to inform management decisions and control costs;

- Formalized the corrective action planning process through a Management Directive, guidance, and training.
- Implemented an automated corrective action tracking system to ensure progress is tracked and management is held accountable for progress.
- Developed a strategic planning process for improving financial management at DHS.
- Established ongoing reporting by the DHS OIG that assesses and compliments management's corrective action efforts through performance audits.

- Executed the first phase of our multi-year plan to implement a comprehensive internal control assessment pursuant to OMB A-123, Appendix A guidelines.
- The OCFO has developed a unified corrective action plan. This plan lists key milestones and completion dates for all financial statement material weaknesses through FY 2010.
- ICE has made measurable progress in implementing corrective actions which resulted in a reduction of its material weakness conditions.
- Initiated stand alone audits at FLETC. Continued stand alone audits at CBP and TSA.
- Established a financial policy working group. This group has completed an initial inventory of DHS financial management policies, constructed a matrix linking financial management policy and regulation, identified gaps, and prioritized the filling in of these gaps with a comprehensive set of financial management policies.

**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

- Developed and successfully implemented an Enterprise Architecture (EA) to guide investment decisions and systems development activities for the department. The use of the EA helps minimize unnecessary duplication of systems and also promotes appropriate intra- and inter-agency information sharing.
- Completed security certification and accreditation for 95 percent of the department's systems at the end of FY 2006, up from 35 percent at the beginning of the fiscal year.
- Complied with the FY 08 budget process requirement for identifying Federal Information Security Management Act (FISMA) systems that pertain to each major IT investment. Requiring that each FISMA system be mapped to an investment has resulted in a more accurate accounting for IT spending.
- Mapped all DHS IT investments to functional and IT portfolios, and developed portfolio cost reports. Supported the DHS CIO Council and Joint Requirements Council by conducting portfolio cost analyses.
- Implemented the cost/schedule/performance tracking of all major DHS investments on a quarterly basis. Developed a summary scorecard for each DHS component of quarterly cost/schedule/performance information for feedback to components and OMB eGov PMA reporting. Developed EVM guidance and training courses for DHS program management personnel.
- Achieved initial operating capability for DHS OneNet and for the DHS Stennis Data Center, thereby continuing to make progress in consolidating information technology (IT) infrastructure assets across the component agencies of DHS.
- Completed an interoperability baseline survey and version 2.0 of the statement of requirements for SAFECOM to improve interoperability for first responders.

**Budget and Performance Integration** — ensuring that performance is routinely considered in funding and management decisions and those programs achieve expected results and work toward continual improvement. For each initiative, the President's Management Agenda established clear, government-wide goals or standards for success.

- Completed the final 20% of Program Assessment Review Tool (PART) reviews of DHS mission area programs. DHS has now completed reviews of all of its major mission area programs. These PART reviews enabled programs to identify improvement areas and the development of actions plans to address them. Details of the PARTs completed during FY 2006 are found in the Program Evaluations section of this report.
- Utilized and demonstrated the marginal cost of incremental improvements in program performance metrics during budget formulation. Increased sophistication of performance budgeting included use of cost modeling of additional staffing. The ability to know and use the incremental cost of changes in program performance helps DHS become more efficient in accomplishing its mission.
- Provided better management information which couples program performance and management improvement of the President's Management Agenda with budget spending. This was accomplished by expanding the scope of component quarterly performance reporting to combine budget and performance information to enable quarterly reviews and assessments of progress in achieving annual targets in the annual performance plan and PART measures.
- Provided a DHS Congressional Budget Justification performance based budget in support of the President's Budget to Congress. The Performance Budget provided for each DHS program past and proposed funding, staffing levels, program goals and annual associated performance metrics in meeting the program goal. This combined information provides association of the level of program performance in outputs and results with funding levels for each program.

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

- Completed statistically significant improper payments sample testing for Hurricane Katrina payments at FEMA. This testing identified FEMA's Disaster Relief Program as at high risk for improper payments (vendor and Individuals and Households Program [IHP] payments). FEMA management has begun recouping these improper payments and supplied a detailed corrective action plan which the Department is tracking.
- Completed an OMB Circular A-123 Management's Responsibility for Internal Control pilot of key internal controls over disbursements at FEMA. This pilot identified many areas for improvement which FEMA management is implementing.
- Completed statistically significant testing of all programs which issued more than \$100 million in FY 2005 disbursements at CBP, CIS, ICE, TSA, and USCG. Completed statistically significant testing of all programs which issued more than \$10 million in FY 2005 disbursements at FLETC and USSS. This testing did not identify any programs as at high risk for issuing improper payments but did lead to improvements in payment processing.
- Expanded recovery audit contract work to USCG. Continued recovery audit contract work at CBP and ICE. • Improved the methodology for identifying Improper Payment Information Act (IPIA) programs.

**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.

- Developed the first accurate and current inventory of DHS real property assets. This inventory includes all installations, buildings, structures and land owned and operated in support of DHS missions. Inventory information is collected and maintained in accordance with Federal Real Property Council (FRPC) standards and was included in the first Government-wide real property database created in December 2005.
- Published the DHS Asset Management Plan which was approved in June 2006. This plan establishes the Department's goals and objectives to ensure that real property management is consistent with the DHS Strategic Plan, performance mea-

tures, and Federal Real Property Council (FRPC) standards.

- Established DHS-wide councils that provide management focus on real property across the Department and its components. The Chief Administrative Officer (CAO) Council and the Real Property Management Committee (RPMC) regularly convene to plan and manage the Department's real property program.

## LIMITATIONS OF THE 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 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with 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.



# 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, welcomes lawful immigrants and visitors, and promotes 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 2006. The Department developed 118 specific program performance measures to assess results of our activities in achieving the goals in fiscal year 2006. 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 2006, 81 or 68.6%, of established performance measures met their target. End of year results for eight performance measures are based on estimated data. Of those not met, there were seven (7) performance measures that did improve over their FY 2005 actuals. 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.

This section also addresses the completeness and reliability of performance measures data and summarizes key program evaluations conducted during fiscal year 2006. 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 identify and report estimated results when actual results are not yet available. Estimated results are also identified in the program performance tables.

Additionally, this section reports on the Program Assessment Rating Tool (PART) evaluations conducted by the Office of Management and Budget (OMB). During the fiscal year 2006, 19 PART reviews were completed. No Department program was found to be Ineffective. Three (3) programs were rated Effective, 6 were rated Moderately Effective, and 5 programs were deemed Adequate in achieving results. Five (5) programs were rated as Results Not Demonstrated. Each PART concludes with recommendations 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 A-136, Financial Reporting Requirements, Section II.3.4.4 Assessing the completeness and reliability of performance data*; and *OMB Circular A-11, Preparation, Submission and Execution of the Budget, Section 230.2 (e), Assessing the completeness and reliability of performance data*. In the following tables, we identify:

### Completeness

Actual performance for every performance goal and measure in the fiscal year 2007 Performance Budget (performance plan), which included the final performance plan for fiscal year 2006, 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 2007 *Performance and Accountability Report*.

### Reliability

Department Program Managers are responsible for the reliability of performance measurement information for programs under their cognizance. Program Managers classify performance information as either: Reliable, Inadequate or To Be Determined. The following tables provide a summary of the performance data we classify as other than reliable, that is, Inadequate or To Be Determined. FY 2006 performance data that are estimates as final information could not be collected in time for this report are also identified.

The Transportation Security Administration reports a material weakness in the process for measuring performance and reporting under the Government Performance and Results Act. However, the performance data reported in this report are complete and accurate. TSA is continuously making improvements in its performance data and internal processes.

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

## Strategic Goal 1 - Awareness

Reported results are complete and reliable

## Strategic Goal 2 - Prevention

Program	Drug Interdiction United States Coast Guard
Performance Measure	Removal rate for cocaine that is shipped via non-commercial maritime means.
Explanation and Corrective Action	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. CG 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. Data is reported as estimated because the maritime flow estimates are not available in time to calculate the removal rate for this report. When the flow rate becomes available the removal rate will be calculated and reported in the following Performance and Accountability Report (PAR).

Program	Migrant Interdiction United States Coast Guard
Performance Measure	Percentage of undocumented migrants who attempt to enter the U.S. via maritime routes that are interdicted or deterred.
Explanation and Corrective Action	ESTIMATED DATA: The numbers of illegal migrants entering the U.S. and the numbers of potential migrants are derived numbers subject to estimating error. Because of the speculative nature of the information used, and the secretive nature of illegal migration, particularly where professional smuggling organizations are involved, the estimated potential flow of migrants may contain error. That said, this measure has adequate reliability as the error is within acceptable tolerance. The FY06 performance data is estimated because the Maritime Migration and Human Smuggling Monthly Flow Report for September is not available yet. The performance actual will be updated in November or December and appear in next year's PAR.

## Strategic Goal 3 - Protection

Program	Evaluation and National Assessment Program Preparedness
Performance Measure	Percent of recommendations made by reviewing authorities (i.e., IG, OMB, GAO) that are implemented within 1 year.
Explanation and Corrective Action	ESTIMATED DATA: Preparedness Grants & Training (G&T) continuously reviews recommendations made in independent evaluations for inclusion in this measure. G&T coordinates with its program offices to assess whether recommendations have been implemented, and whenever possible, G&T collects evidence (e.g. Inspector General review closeout letters) to confirm implementation of recommendations. 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 2007 and will be reported in the FY 2007 PAR report.



Program	State and Local Training Preparedness
Performance Measure	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.
Explanation and Corrective Action	ESTIMATED DATA: Self - reported trainee evaluations are somewhat subjective but constitute an efficient method of collecting information on all trainees progress in improving their knowledge, skills, and abilities. G&T collects self - assessments on 100% of the professionals enrolled in G&T training courses, improving data consistency and reliability. In addition, the risk of including clearly erratic or unreliable evaluation responses in the data set is mitigated through a review process. G&T supervisors review data tabulations performed by G&T analysts before releasing results. Data is estimated because partners are not required to submit data until 30 days after the end of the quarter and it takes 15 days to compile and verify the data for reporting. Actual results will be reported in the FY 2007 Performance and Accountability Report (PAR).

Program	Targeted Infrastructure Protection Grants Preparedness
Performance Measure	Percent of goals and objectives identified in Regional Transit Security Strategies addressed by grantee projects
Explanation and Corrective Action	INCOMPLETE: There is no data available to support this measure. The requirement that grantees meet goals and objectives identified in the Regional Transit Security Strategies was removed from the grant guidance sent out to applicants. This measure is unsupported in the absence of that requirement. DHS is in the process of replacing this measure. Given that the current measure is unable to be reported on, Grants and Training is in the process of establishing new performance measures for FY 2007 that will assess grant recipients efforts to improve their ability to prevent, protect against, respond to, and recover from terrorist attacks.

Program	U.S. Fire Administration Preparedness
Performance Measure	Percent reduction in the rate of loss of life from fire-related events.
Explanation and Corrective Action	ESTIMATED DATA: Loss of life data from the National Fire Incident Reporting System (NFIRS) are also compiled and reviewed by the National Fire Data Center. Statistical weighting and comparison of these data are done in conjunction with the National Fire Protection Association's data to check for accuracy. A comparison with these data to the NCHS mortality data is conducted for consistency and relative veracity. Because NCHS obtains this information through census data which is not takes considerable time to obtain and publish, data on the percent reduction in the rate of loss of life from fire-related events will not be fully available until April 2009 and will be reported in the FY 2009 Performance & Accountability Report.

## Strategic Goal 4 - Response

Program	Marine Environmental Protection (MEP) United States Coast Guard
Performance Measure	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 U.S. per 100 million short tons of chemical and oil products shipped in U.S. waters.
Explanation and Corrective Action	ESTIMATED DATA: This measure evaluates how well the Coast Guard prevents discharges of chemicals or oil into U.S. navigable waters by comparing the current period to those of previous periods. Information recorded in the Coast Guard's Marine Information for Safety and Law Enforcement database is generally complete when the database is accessed. Some incidents are never reported, however, and some information is delayed in reaching the Coast Guard. Performance data will be revised as U.S. Army Corps shipping volume data becomes available. Duplicate information may occasionally be entered or an incident inadvertently omitted or incorrectly coded. Formal verification procedures strive to rectify any errors, and program logic and comprehensive user guides have been developed to ensure that data is highly reliable. The revised performance data will be available at the end of FY07 and available in next year's Performance and Accountability Report.

## Strategic Goal 5 - Recovery

Program	Public Assistance Federal Emergency Management Agency
Performance Measure	Percent of customers satisfied with Public Recovery Assistance
Explanative and Corrective Action	ESTIMATED DATA: Survey data are collected, analyzed and reported by outside contractors using methods that guarantee both validity and reliability. The final results of the Public Assistance Program Evaluation and Customer Satisfaction Survey that is conducted for calendar year of 2006 will not be available until February 2007, and will be reported in the 2007 Performance and Accountability Report.

## Strategic Goal 6 - Service

Reported results are complete and reliable

## Strategic Goal 7 - Organizational Excellence

Program	Office of the Secretary and Executive Management
Performance Measure	Percent of DHS strategic objectives with programs that meet their associated performance targets.
Explanation and Corrective Action	ESTIMATED DATA: Quarterly and annual data performance data for each program is validated through the Component's Planning offices, vetted through their leadership, and coordinated by the Office of Program Analysis and Evaluation. Data is indicated as estimated as some on the underlying data reported, of which this measure is a summary, was estimated. Year end results reported as estimates are due largely to the length of time it takes to collect actuals is longer than the 45 day time limit to issue the Performance and Accountability Report after the end of the fiscal year. When actual data is collected it will be reported in the following year's Performance and Accountability Report.

## Strategic Goal 1 - Awareness

**T**he 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 2006 to achieve this goal is provided below.

Performance Goal:	Deter, detect, and prevent terrorist incidents by sharing domestic situational awareness through national operational communications and intelligence analysis.				
Performance Measure:	Percent of Federal, State and local agencies that maintain connectivity with the Homeland Security Operations Center (HSOC) via Homeland Security Information Network (HSIN) and participate in information sharing and collaboration concerning infrastructure status, potential threat and incident management information				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	Sensitive	Sensitive	Sensitive	Not Met
Description:	This measure calculates the percentage of targeted agencies that participate in the Homeland Security Information Network (HSIN). Participation involves both receiving and transmitting potential threat and incident management information.				
Explanation of FY 2006 Results:	While the actual data is sensitive, Analysis and Operations (A&O) has made progress in broadening access to the HSIN. That said, Network access is not expanding at the rate A&O has targeted.				
Recommended Action:	A&O will re-double its efforts and reach out to an even wider array of homeland security partners in order to broaden access and use of the HSIN.				
Objective/s Supported:	1.3 - Provide timely, actionable, accurate, and relevant information based on intelligence analysis and vulnerability assessments to homeland security partners, including the public.				
Program:	Analysis and Operations Program - Analysis and Operations Component				

Performance Goal:	100 percent distribution of sensitive threat information relative to Department of Homeland Security / Transportation Security Administration components, field elements and stakeholders.				
Performance Measure:	Number of successful attacks resulting from mishandling or misinterpreting intelligence information received by TSA intelligence service.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	0	0	0	Met
Description:	This measure refers to any attack on the U.S. transportation system, which could have been prevented given viable resources, and was a result of TSA's intelligence program mishandling or misinterpreting intelligence information.				
Explanation of FY 2006 Results:	The results of this measure are indicators of how successfully the TSA Office of Intelligence program is performing its mission by minimizing analytical errors and maximizing intelligence provisioning to customers and stakeholders. The measure greatly reflects on the partnership with the DHS Intelligence and Analysis and the ability of the agency to communicate and operate within the Department. The public is well-served by preventing loss of life, property, and the financial burden otherwise incurred from failure.				
Objective/s Supported:	1.1 - Gather, fuse, and analyze all terrorism and threat related intelligence.				
Program:	Intelligence - Transportation Security Administration				

Performance Goal:	Prevent known or suspected terrorist from gaining access to sensitive areas of the transportation system.				
Performance Measure:	Number of successful attacks to the transportation system that should have been prevented by the program.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	0	0	0	Met
Description:	Description: This measure refers to any successful attack that could have been prevented, given current resources, by the sub-programs within Transportation Vetting and Credentialing (Secure Flight, Crew Vetting, Transportation Worker Identification Credential ("TWIC"), Registered Traveler, HAZMAT Trucker Background Checks, and Alien Flight School Checks).				
Explanation of FY 2006 Results:	In FY 2006, there were zero reported attacks on our national transportation system. The programs and processes associated with vetting and credentialing met the requirements and objectives by ensuring that those individuals using our Nation's transportation system did not endanger or damage our national transportation system.				
Objective/s Supported:	1.3 - Provide timely, actionable, accurate, and relevant information based on intelligence analysis and vulnerability assessments to homeland security partners, including the public. 2.5 - Strengthen the security of the Nations transportation systems.				
Program:	Transportation Vetting and Credentialing- Transportation Security Administration				

## 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 Nations transportation systems.

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

Detailed information concerning actual performance during fiscal year 2006 to achieve this goal is provided below.

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.				
Performance Measure:	Advanced Passenger Information System (APIS) Data Sufficiency Rate. (Percent)				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	98%	98.6%	99.2%	78.9%	Not Met
Description:	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.				
Explanation of FY 2006 Results:	Carrier compliance rates were substantially below the target. New APIS reporting requirements went into effect in FY 2006 that greatly increased the number of reportable data elements from 5 to over 20, including manually-provided data elements for home address, placing greater responsibility for accuracy at the embarkation point. All data elements on the passenger data record must be transmitted correctly in order for the record to be counted as a valid record.				
Recommended Action:	Carriers are having difficulty ensuring that legible and valid information is provided for advanced transmission in the manually prepared data fields. APIS Carrier Account Managers are working with the carriers to improve data collection procedures and input forms in order to improve the APIS rate.				

Performance Measure:	Border Vehicle Passengers in Compliance with Agricultural Quarantine Regulations (percent compliant).				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	93.68%	94.6%	92.9%	Not Met
Description:	The measure shows CBP's success at maintaining a high level of security in the land border environment by measuring the degree of compliance rate with agricultural quarantine regulations and other mandatory agricultural product restrictions.				
Explanation of FY 2006 Results:	CBP has shown significant success in achieving compliance over historical rates; however, the goal for compliance of land border vehicle passengers (94.6%) for FY 2006 was not met. High-risk land border environments are not yet fully staffed with trained CBP Agriculture Specialists. Keeping unwanted agricultural products from entering our borders helps improve the safety of our nation. Although we have maintained a high rate of compliance, we will continue to set higher goals for achievement. Currently, a lack of fully trained Agricultural Specialists is the root cause of us not achieving higher levels of compliance. Keeping unwanted agricultural products from entering our borders helps improve the safety of our nation.				
Recommended Action:	Analysis indicates that higher rates of interceptions occurred during shifts when Agriculture Specialists were available. Fully staffing high-risk ports with trained CBP Agriculture Specialists will increase the Quarantine Material Interceptions (QMIs), which will improve compliance. CBP should maintain its current mix of programs while continuing its emphasis on filling Agricultural Specialist vacancies, with a priority given to higher-risk ports, and providing additional specialized training to CBP Officers.				

Performance Measure:	International Air Passengers in Compliance with Agricultural Quarantine Regulations (percent compliant).				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	97%	95.8%	97%	95.5%	Not Met
Description:	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.				
Explanation of FY 2006 Results:	CBP has shown significant success in achieving compliance over historical rates, however the goal for compliance of air passengers (97%) for FY 2006 was not met. Although we have maintained a high rate of compliance, we will continue to set higher goals for achievement. Keeping unwanted agricultural products from entering our borders helps improve the safety of our nation. Currently, a lack of fully trained Agricultural Specialists is the root cause of us not achieving even higher levels of compliance.				
Recommended Action:	Analysis indicates that higher rates of interceptions occurred during shifts when Agriculture Specialists were available. Fully staffing high-risk air environments with trained CBP Agriculture Specialists will increase the Quarantine Material Interceptions (QMIs), which will improve compliance. CBP should maintain its current mix of programs while continuing its emphasis on filling Agricultural Specialist vacancies, with a priority given to higher-risk environments, and providing additional specialized training to CBP Officers.				

Performance Measure:	Percent of active commissioned canine teams with 100% detection rate results in testing of the Canine Enforcement Team.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	99%	99%	100%	Met
Description:	The Canine Enforcement Program conducts semi-annual testing of the Canine Enforcement Teams to maintain an operating standard of full detection. To meet both new and existing threats, the CBP canine program has trained and deployed canine teams in a broad array of specialized detection capabilities. Any team exhibiting a weakness in detection capability for an area in which it has been trained must undergo additional training in order to bring it to a level of full detection.				
Explanation of FY 2006 Results:	The CBP canine program has been successful at maintaining the highest detection rates of any canine program in the country, even though it is the largest and most diverse. This is due primarily to high training standards and regular testing to identify deficiencies early, before they become serious problems. Well trained canine units help stop illegal drugs from entering our borders. CBP will continue to emphasize frequent testing and retraining in order to continue expanding detection capabilities while maintaining the highest detection rates possible.				

Performance Measure:	Number of foreign mitigated examinations waived through the Container Security Initiative.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	2416	25,222	24,000	30,332	Met
Description:	This proxy measure gauges the outcome of increased information sharing and collaboration by collocating 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.				
Explanation of FY 2006 Results:	The increased collaboration of foreign and collocated CSI customs personnel at foreign ports reflected by this proxy measure supports 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.				

Performance Measure:	Percent of worldwide U.S. destined containers processed through Container Security Initiative (CSI) ports				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	48%	73%	81%	82%	Met
Description:	This measure is the percent of worldwide U.S.-destined containers (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. 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 4) examination of the container.				
Explanation of FY 2006 Results:	Achieving the actual result - reviewing a higher percentage of U.S. destined cargo processed through CSI ports - increases the likelihood 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 from more foreign ports.				



Performance Measure:	Compliance rate for Customs-Trade Partnership Against Terrorism (C-TPAT) members with the established C-TPAT security guidelines.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	97.0%	90%	98%	Met
Description:	The percentage of validated C-TPAT companies found to meet security criteria or guidelines indicates the actual verified rate of compliance to C-TPAT security procedures.				
Explanation of FY 2006 Results:	In FY 2006, CBP has increased the number of validations performed. Over fifty percent of all C-TPAT members have been validated by CBP. A high compliance rate indicates that a majority of C-TPAT members are committed to maintaining supply chain security standards and have the required level of supply chain security measures in place.				

Performance Measure:	Percent of Sea Containers Examined using Non-Intrusive Inspection Technology (NII)				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	5.2%	5.6% (corrected from 8.1% previously reported)	5.25%	5.25%	Met
Description:	The measure shows the progress towards increasing security by measuring the percent of sea containers arriving at seaports that were examined using NII technology.				
Explanation of FY 2006 Results:	The goal of this measure is to demonstrate improved efficiencies and therefore facilitate international trade and travel without compromising enforcement. NII systems provide a quick, safe, and effective method for screening sea containers for Weapons of Mass Effect (WME) and other contraband while facilitating legitimate cross-border traffic. Examinations are conducted to satisfy the requirement for 100% examination of all targeted high-risk containers (specifically, advanced targeting through Advance Targeting System (ATS) manifest reviews and Officer assessment) that have a higher risk profile and may pose a threat to our country. The higher the percentage of cargo screened using NII, the greater the likelihood of detecting potentially hazardous materials and preventing them from entering the United States. This technology provides a more efficient and effective alternative to 100 percent physical inspection of all targeted high-risk containers.				



Performance Measure:	Percent of Truck and Rail Containers Examined using Non-Intrusive Inspection (NII)				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	26.2%	28.9%	10.25%	32.80%	Met
Description:	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.				
Explanation of FY 2006 Results:	The goal of this measure is to demonstrate improved efficiencies and therefore facilitate international trade and travel without compromising enforcement. NII systems provide a quick, safe, and effective method for screening truck and rail containers for Weapons of Mass Effect (WME) and other contraband while facilitating legitimate cross-border traffic. Examinations are conducted to satisfy the requirement for 100% examination of all targeted high-risk containers (specifically, advanced targeting through Advanced Targeting System (ATS), manifest reviews and Officer assessment) that have a higher risk profile and may pose a threat to our country. The higher the percentage of cargo screened using NII, the greater the likelihood of detecting potentially hazardous materials and preventing them from entering the United States. This technology provides a more efficient and effective alternative to 100 percent physical inspection of all targeted high-risk containers.				
Objective/s Supported:	2.1 - Secure our borders against terrorists, means of terrorism, illegal drugs and violations of trade and immigration laws. 2.4 - Coordinate national and international policy, law enforcement, and other actions to prevent terrorism. 6.4 - Facilitate the efficient movement of legitimate cargo and people.				
Program:	Border Security Inspections and Trade Facilitation at Ports of Entry - Customs and Border Protection				

Performance Goal:	To gain operational control of the U.S. border in areas deemed as high priority for terrorist threat potential or other national security objectives.				
Performance Measure:	Apprehensions at checkpoints-effectiveness of checkpoint operations in apprehensions as they relate to border enforcement activities.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	6.2%	5%-10%	5.9%	Met
Description:	This measure examines the effectiveness of checkpoint operations in apprehensions as they relate to border enforcement activities and serves as one of the Office of Border Patrol's barometers for measuring operational effectiveness. Checkpoint activity levels correspond to overall border enforcement activities in most areas. The goal is to deploy a defense-in-depth strategy that strategically utilizes interior checkpoints and enforcement operations calculated to deny successful illegal migration into the United States.				
Explanation of FY 2006 Results:	The checkpoints serve as a component of the successful "defense in depth" strategy, which deny major routes of egress to smugglers intent on delivering people, drugs, and other contraband into the interior of the U.S. Through the development and utilization of the Checkpoint Activity Report, more accurate information has been collected on checkpoint operations, ensuring they have a strategic focus based on current threat levels and national and sector priorities. Tucson was the anomaly out of all Border Patrol sectors, therefore, apprehensions for this sector were not included in the apprehension average. While checkpoint apprehensions remained consistently indicative of overall apprehensions nation-wide in FY 2005 (5.3%), apprehensions in Tucson decreased from 5.2% in FY05 to 2.7% in FY06 due to an enhanced level of operations in Arizona with Operation Jump Start and Arizona Border Control Initiative, as well as severe weather conditions affecting the Tucson area of operations.				

Performance Measure:	Border Miles Under Control (including certain coastal sectors).				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	288	338	449 Miles	Met
Description:	As the Border Patrol moves toward its ultimate goal of control of the border, gains made in improving border security are examined to measure levels of control. The Border Patrol is responsible for the 8,607 miles of land border shared with Mexico and Canada as well as the coastal border areas of the New Orleans, Miami and Ramey sectors. This measure depicts the Number of Border Miles Under Control where the appropriate mix of personnel, equipment, technology, and tactical infrastructure has been deployed to reasonably ensure that when an attempted illegal alien is detected, identified and classified, that the Border Patrol has the ability to respond and that the attempted illegal entry is brought to a satisfactory law enforcement resolution. As the Border Patrol continues toward its forward deployment efforts and resources are deployed based on risk, threat potential and operational need, the number of miles under control will increase.				
Explanation of FY 2006 Results:	Border Patrol exceeded its 338 mile target in FY2006 through the strategic deployment of resources in conjunction with improved intelligence collection, analysis and dissemination. In priority areas such as Tucson and El Paso Sectors, previously planned deployment of technology and infrastructure coupled with personnel increases resulted in more miles brought under control than expected. In other specific areas of Del Rio Sector, manpower was reallocated based on intelligence and in concert with improved prosecutions of illegal aliens resulted in appreciable gains in mileage under control. By deploying National Guard (NG) troops to perform non-law enforcement duties beginning in June 2006, Border Patrol agents returned to border enforcement activities along the southwest border, further advancing the miles under control. Improving border miles under control helps keep unwanted illegal activity from entering our borders making our nation more secure.				
Objective/s Supported:	2.1 - Secure our borders against terrorists, means of terrorism, illegal drugs and violations of trade and immigration laws. 2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Program:	Border Security and Control between Ports of Entry - Customs and Border Protection				

Performance Goal:	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.				
Performance Measure:	Percent of internal population using ACE functionality to manage trade information				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	8%	14%	23%	Met
Description:	The number of Customs and Border Protection people using Automated Commercial Environment (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.				
Explanation of FY 2006 Results:	Increasing the agency's ACE user base means advanced cargo information will be more widely available thus increasing the use of targeting information to pre-screen, target and identify potential terrorists, terrorist shipments and contraband. Our estimate of the expected population of CBP will be reevaluated regularly to verify it represents the personnel that will use ACE to manage trade information.				

Performance Measure:	Percent of trade accounts with access to ACE functionality to manage trade information				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	1%	4%	3.5%	Not Met
Description:	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. - are gaining the benefit of electronic forms and easier access to more complete information regarding shipments.				
Explanation of FY 2006 Results:	ACE and its secure data portal feature offers unprecedented information integration and communication between CBP, the trade community and other participating government agencies through a single, on-line access point. Through September 2006, there are 3,737 ACE Trade Accounts. Growth in the number of ACE accounts is primarily attributable to the successful deployment of ACE cargo processing capabilities at land border ports.				
Recommended Action:	Future actions to increase participation include conferences and seminars; trade shows; and media advertising and interviews. Specifically, over 250 truck carriers and 350 importers and brokers attended the agency-sponsored ACE Exchange Conference in Chicago, Illinois in August 2006. The conference provided participants an opportunity to learn and discuss the latest status of ACE, including electronic truck manifest processing, Periodic Monthly Statement, and forthcoming Entry Summary, Accounts, and Revenue capabilities. Additionally, Southern Border outreach efforts include targeting over 1,700 Mexican transport companies. CBP targets these companies through Mexican associations, manufacturers, and brokers. Finally, our original estimate of the expected population of trade users is being revisited to better reflect the expected user base. Initial results indicate that the expected total number of trade accounts appears to have been overstated and FY targets will need adjustment.				

Performance Measure:	Percent (%) of time the Treasury Enforcement Communication System (TECS) is available to end users.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	96.15%	92%	98%	Met
Description:	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 DHS law enforcement offices and other national, state, and local law enforcement agencies. TECS provides access to the FBI'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.				
Explanation of FY 2006 Results:	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. Our team has put in place a robust set of procedures to ensure the end-user has access to the TECS system when they need it. Having a high availability rate provides a better probability of apprehending those involved in illegal activities.				
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Program:	Automation Modernization - Customs and Border Protection				

Performance Goal:	Deny the use of air, land and coastal waters for conducting acts of terrorism and other illegal activities against the United States.				
Performance Measure:	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.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	4.41%	<23%	7.5%	Met
Description:	In FY2006, all air assets of CBP were merged into CBP Air and Marine (A&M), creating the largest law enforcement air force in the world with enhanced mission support to A&M's primary customer, the Office of Border Patrol. The primary and most important outcome measured for A&M, or any air force, is its capability and/or capacity to launch an aircraft when a request is made for aerial support. The annual "no launch rate" shows the percent of all requests A&M was unable to respond to based on 3 factors: aircraft unavailable due to maintenance; correct type of aircraft needed for mission unavailable; correct type of aircraft available, but incorrect crew or crew-size unavailable to launch. There are numerous other reasons why aircraft do not launch, however these are the ones presently used to monitor progress.				
Explanation of FY 2006 Results:	More air assets were realigned to the SW Border of the U.S. in support of Arizona Border Control Initiative (ABCI) Phase III, with increased operational tempo. 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. Although this operation has put a strain on the assigned aircraft, causing increased maintenance/ground time, A&M was able to launch aircraft in support of most missions. As air assets are relocated from other regions of the U.S., in some cases, insufficient aircraft may be available to support those requests for support. However, A&M has laid out plans to relocate assets and personnel permanently to the SW Border in support of CBP primary mission, acquire additional aircraft and unmanned aircraft, and hire additional personnel to achieve and maintain future projected no-launch targets.				
Objective/s Supported:	2.1 - Secure our borders against terrorists, means of terrorism, illegal drugs and violations of trade and immigration laws.				
Program:	CBP Air and Marine - Customs and Border Protection				

Performance Goal:	Develop the systems architecture, conduct all associated systems engineering, and develop technology roadmaps for risk areas in nuclear detection.				
Performance Measure:	Number of Architecture layers defined.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	9	9	Met
Description:	The DNDO performed an assessment of the existing global nuclear detection system, or architecture. This measure describes the analysis of existing U.S. nuclear detection capabilities. For the purpose of this report, the architecture was divided into nine layers of detection and reporting opportunities. This analysis defined and documented current U.S. Government efforts to detect and report nuclear or radiological threats in each of these layers as part of the initial baseline assessment of the architecture.				

Explanation of FY 2006 Results:	In FY 2006, the DNDO completed the first global nuclear detection architecture analysis and documented a baseline of nuclear detection capabilities across the U.S. Government. The analysis of this architecture identified and evaluated multiple detection layers, beginning with foreign origin of threats, continuing through multiple international and domestic pathways, and concluding with arrival at a target. The results of this analysis have led to several directed initiatives to address identified opportunities for improving overall probability of detecting and reporting threats.
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.
Program:	Systems Engineering and Architecture - Domestic Nuclear Detection Office

Performance Goal:	Incrementally design, develop, acquire, and support the deployment of a system capable of rapid and high-reliability detection and identification of special nuclear material with out restriction to commerce.				
Performance Measure:	Number of multi agency working group program reviews held for the Securing the Cities Program.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	3	3	Met
Description:	Detecting domestic nuclear or radiological threats requires strong cooperation across federal, state, local, and tribal levels. Regular program reviews by several agencies inside and outside DHS serve as one means of encouraging this cooperation. Participating DHS components include the Preparedness Directorate, Customs and Border Protection, United States Coast Guard, and Transportation Security Administration. Outside agencies include the Departments of Energy, Defense, Justice, and State. A memorandum for the record will be prepared and circulated after each meeting with descriptions of issues, assigned actions and due dates, and accomplishments.				
Explanation of FY 2006 Results:	In FY 2006, the DNDO held several multi-agency working group meetings leading to the July 14 announcement by Secretary Chertoff that the New York City region had been selected as the first urban area for participation in the program. The DNDO is now working with state and local agencies in the region to develop an analytically-based nuclear and radiological detection strategy. The capability of rapid, highly reliable detection and identification of special nuclear material will enhance our nation's security.				

Performance Measure:	Number of next generation detection systems acquired.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	112	88	Not Met
Description:	<p>One of the cornerstones of protecting the U.S. from radiological or nuclear terrorism is detecting radioactive and nuclear materials at ports of entry. Radiation portal monitors serve as the primary piece of equipment used to conduct this mission. However, balancing this mission against requirements to maintain a free and efficient flow of commerce has proven difficult with currently available technologies. The Advanced Spectroscopic Portal (ASP) program provides next-generation systems with an improved probability of detection and lower false alarm rates (the rate at which the device incorrectly 'flags' a container that contains radiation, but no threat materials). By distinguishing between cargo with radiation of concern and innocent radiation sources, ASP systems provide the capability to continue to meet security needs without slowing the flow of goods and people. The DNDO plans to deploy this technology at the highest-traffic land border crossings, airports, and seaports.</p>				
Explanation of FY 2006 Results:	<p>In FY 2006, the DNDO procured the first 88 ASP systems, falling short of the stated goal. These portal monitors provide substantial improvements over current generation portals, particularly for reducing requirements for labor-intensive additional inspections caused by "nuisance" alarms due to innocent radiation sources. This initial equipment will be deployed to the busiest ports, where "nuisance" alarms have the biggest effects. These new systems will provide a higher level of security and better use of current personnel. Systems procured in FY 2006 will be thoroughly tested prior to a full rate production decision in FY 2007.</p>				
Recommended Action:	<p>Due to refinements in the overall deployment strategy, the decision was made in mid-FY 2006 to purchase relatively more current-generation systems to allow for additional testing of ASP systems prior to full-scale deployment. As testing is completed in mid-FY 2007, DNDO expects to return to original procurement schedules, with projected purchases of approximately 130 ASP systems in FY 2007 and more than 230 systems in FY 2008.</p>				
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Program:	Systems Development and Acquisition - Domestic Nuclear Detection Office				

Performance Goal:	Develop the future nuclear detection technologies that will be capable of detecting all nuclear material entering the United States Homeland.				
Performance Measure:	Percent of proposals awarded.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	3%	18.75%	Met
Description:	<p>Part of the DNDO's mission is to encourage and bring about new concepts and ideas to detect, characterize, and identify nuclear materials to prevent them from being smuggled into the U.S. Investments will be made in basic and applied research. The DNDO will solicit proposals in a number of topic areas, with awards based on technical merit and relevance to the DNDO mission.</p>				



Explanation of FY 2006 Results:	In FY 2006, the DNDO selected 44 proposals from National and Federal Laboratories for Exploratory Research. These efforts are focused on providing fundamental research leading to future improvements to nuclear detection capabilities, reduced cost, increased performance and improved operability. Improved nuclear detection capabilities will improve national security.
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.
Program:	Transformational Research and Development - Domestic Nuclear Detection Office

Performance Goal:	Develop the tools and methodology for and to assess the Nation's domestic nuclear detection capabilities through a combination of developmental and operational test and evaluation, as well as active red-teaming exercises.				
Performance Measure:	Number of tests conducted annually to assess system capability.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	2	3	Met
Description:	The DNDO is responsible for providing the infrastructure and institutional experience necessary to conduct independent technical evaluations of nuclear detection technologies. The evaluations serve to provide the DNDO, as well as federal, state, local, and tribal partners, with the information to support technology transitions or acquisition and deployment decisions.				
Explanation of FY 2006 Results:	In FY 2006, the DNDO conducted three test series in support of technology development efforts—radiation portal monitors, human portable and mobile detection systems, and personal radiation detectors. The results of each of these test series are now being used to inform competitive award processes and the development of performance specifications for next generation radiation detection systems. Improved specifications and requirements will improve our nuclear detection capabilities and enhance our security posture.				
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Program:	Assessments - Domestic Nuclear Detection Office				

Performance Goal:	Establish and maintain a real-time situational awareness and support capability for the national nuclear detection architecture, including information analysis, technical reachback, and the development of training and operational response protocols.				
Performance Measure:	Number of personnel trained in radiological and nuclear preventive detection skills.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	300	387	Met
Description:	The DNDO is responsible for providing radiological and nuclear detection training to state and local law enforcement personnel along with first responders. This measure is intended to specify the number of people who were trained in the DNDO-sponsored Preventive Radiological and Nuclear Detection Training Program in a given fiscal year.				
Explanation of FY 2006 Results:	In FY 2006, the DNDO provided preventive radiological and nuclear detection training to 387 personnel in collaboration with the Office of Grants and Training. The courses train local law enforcement and first responders in methods of nuclear and radiological detection and interdiction, with an emphasis on prevention and pre-detonation detection. Having personnel skilled in radiological and nuclear preventive detection will improve national security.				
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Program:	Operations Support - Domestic Nuclear Detection Office				

Performance Goal:	Accredit all Federal law enforcement training.				
Performance Measure:	Total number of programs accredited and re-accredited through Federal Law Enforcement Training Accreditation (FLETA).				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	2	5	7	Met
Description:	The number of federal law enforcement programs accredited through the Federal Law Enforcement Training Accreditation process. This process provides standards to ensure that graduates have the knowledge and skills to fulfill their responsibilities to prevent terrorism and other criminal activities against the U.S. and our citizens in a safe and proficient manner.				
Explanation of FY 2006 Results:	Having solid training programs that adhere to Department standards is important to our nation's safety and security. The Department met its goal by two programs. Programs Accredited: U.S. Dept. of State, Basic Special Agent Course; U.S. Postal Inspection Service, Basic Inspector Training and Postal Police Officer Basic Training; the Federal Law Enforcement Training Center, Law Enforcement Instructor Training Program. Academies Accredited: U.S. Postal Inspection Service, Career Development Division; U.S. Air Force Special Investigations, U.S. Air Force Special Investigations Academy; and Federal Law Enforcement Training Center. The accreditation of a Federal Law Enforcement academy or program ensures that it voluntarily submitted to a process of self-regulation and successfully achieved compliance with a set of standards established within its professional community that demonstrates adherence to quality, effectiveness and integrity.				
Objective/s Supported:	2.4 - Coordinate national and international policy, law enforcement, and other actions to prevent terrorism.				
Program:	Accreditation - Federal Law Enforcement Training Center				



Performance Goal:	Provide the knowledge and skills to enable law enforcement agents and officers to fulfill their responsibilities.				
Performance Measure:	Percent of students that express excellent or outstanding on the Student Quality of Training Survey (SQTS).				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	64%	66%	62%	Not Met
Recommended Action:	The Federal Law Enforcement Center is currently collaborating with the students and Partner Organizations to determine what we can do to improve training to ensure students receive the right skills and knowledge, presented in the right way and at the right time to prevent terrorism and other criminal activity against the US and our citizens.				
Description:	This measure, based on the student's feedback, is an indicator of the degree of training quality received. 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 appropriate way and correct time. The Federal Law Enforcement Training Center (FLETC) biannually summarizes the feedback from graduates of the Center's basic training programs.				
Explanation of FY 2006 Results:	FLETC established and maintained a robust process to examine law enforcement trends and emerging issues. FLETC collaborates with Partner Organizations to assess, validate and improve all programs as they are constantly evolving and being refined in response to emerging issues such as changes in the laws, mission emphasis, and Partner Organization's requirements. Although we did not meet our target of 66%, we will hold ourselves to continuously higher standards in the future. Training programs that meet the end-users needs are important to our nation's safety and security.				

Performance Measure:	Percent of Partner Organizations (POs) that express an agree or strongly agree on the Partner Organization Satisfaction Survey (POSS)				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	92.7	92.7%	82%	95%	Met
Description:	The percentage of federal agencies and organizations that indicate satisfaction with the law enforcement training and services provided by the Federal Law Enforcement Training Center (FLETC) to prevent terrorism and other criminal activity against the U.S. and our citizens.				
Explanation of FY 2006 Results:	FLETC met its goal by achieving a 95% agree or strongly agree rating by its participants. Training programs that meet the end-users needs are important to our nation's safety and security. FLETC is committed to providing the best training possible to all law enforcement organizations that we serve by establishing and maintaining a robust process to examine law enforcement trends and emerging issues. We collaborate with our Partner Organizations to assess, validate and improve each program as they evolve and refine in response to emerging issues such as changes in the laws, mission emphasis, and Partner Organization's requirements. Through this collaboration with our Partner Organizations, FLETC is able to provide the agencies with 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.				

Performance Measure:	Percent of federal supervisors that rate their FLETC basic training graduate's preparedness as good or excellent				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	73.4	90%	73%	71%	Not Met
Description:	The percentage of Federal law enforcement supervisors of basic training graduates of the Federal Law Enforcement Training Center (FLETC), who after eight to twelve months of observing their officers or agents, indicate via survey their employees are highly prepared with the right knowledge and skills to perform their entry-level duties and responsibilities to prevent terrorism and other criminal activity against the U.S. and our citizens.				
Explanation of FY 2006 Results:	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. Through this collaboration with our Partner Organizations, the Federal Law Enforcement Training Center is able to provide the agencies with 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. Although we did not achieve our goal and saw a significant decline from FY 2005, we are committed to continuously higher achievement standards.				
Recommended Action:	We are collaborating with our Partner Organizations to identify areas for improvement in our curriculum to ensure we provide them with basic graduates that are highly prepared with the right knowledge and skills to perform their entry-level duties and responsibilities to prevent terrorism and other criminal activity against the U.S. and our citizens.				
Objective/s Supported:	2.4 - Coordinate national and international policy, law enforcement, and other actions to prevent terrorism.				
Program:	Law Enforcement Training - Federal Law Enforcement Training Center				

Performance Goal:	Remove all removable aliens from the United States.				
Performance Measure:	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).				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	80.7%	109%	81%	124.37%	Met
Description:	With certain exceptions, an alien illegally in the United States is "removable" when an immigration judge issues a "final order of removal" or administrative orders are issued per statute. 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 aliens. The measure is an approximation that becomes meaningful only as the basis for comparing results from quarter to quarter.				
Explanation of FY 2006 Results:	The increased number of fugitive apprehension teams in FY 2006 has paid off with a healthy 124.37% removal rate. This means we have started to remove aliens who were not removed in previous quarters that should have been removed. This achievement improves the safety and security of our nation and its people. The quarterly results are as follows: Quarter 1: Final Orders of Removals (FOR), 41,165 and Removals for the 1st quarter were 43,440 @ 105.53%. Quarter 2: FOR, 44,190, and Removals for the 2nd quarter were 47,126 @ 106.64%. Quarter 3: FOR, 32,061, and Removals for the 3rd quarter were 50,375 @ 157.12%. Quarter 4: FOR, 32,091, and Removals for the 4th quarter were 45,003 @ 140.24%.				

Objective/s Supported:	2.2 - Enforce trade and immigration laws.
Program:	Detention and Removal - United States Immigration and Customs Enforcement

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.				
Performance Measure:	Percent of closed investigations which have an enforcement consequence (arrest, indictment, conviction, seizure, fine or penalty).				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	37.9	38.5%	36.4%	Not Met
Description:	<p>More effective immigration and trade enforcement will contribute to enhanced homeland security as well as to greater deterrence. One method for measuring this effectiveness is to determine the extent to which investigations are completed successfully, i.e., closed 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 the investigation is no longer viable. In addition to getting criminals off the street, successful investigations also expose and close, or contribute to the elimination of, vulnerabilities in various aspects of trade and immigration, i.e., the ways in which criminals manage to evade safeguards that are supposed to prevent their illegal activity, and areas in which such safeguards are lax or do not exist.</p>				
Explanation of FY 2006 Results:	<p>Explanation of FY 2006 Results: During the 4th quarter, it was found that a number of investigative cases with an enforcement consequence had been affected by the unapproved inclusion of administrative arrest data into the database by some field offices. The Office of Investigations, thereupon, initiated a certification process of the data to correct the errant figures. This caused changes to the value of the performance measure and necessitated the recalculation of the measure for each quarter in order to have comparable data. However, the data are not comparable to the target, which was a projection based on the previous year's data.</p>				
Recommended Action:	<p>On October 1, 2006, an enhancement of the data system was made to accommodate, and separately account for, both criminal and administrative arrests in the system. In light of the enhancement to the data system, we will revisit the data elements that should be included in the data computation of our performance measure and will adjust the target as needed.</p>				
Objective/s Supported:	2.2 - Enforce trade and immigration laws.				
Program:	Office of Investigations - United States Immigration and Customs Enforcement				

Performance Goal:	Provide dependable risk analyses, effective systems for surveillance and detection, and reliable bioforensic analyses to protect the nation against biological attacks.				
Performance Measure:	Number of bioaerosol collectors deployed in the top threat cities.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	223	198	Not Met
Description:	The total number of bioaerosol collectors deployed in the top threat U.S. cities, in order to determine the characteristic and extent of a potential terrorist airborne health threat to the public and protect the public by enabling early response actions to identification of airborne materials in the event of an attack. The term “employed” will now be used to track collectors in a jurisdiction. This term better defines the operational status of a jurisdiction.				
Explanation of FY 2006 Results:	The total number of collectors reported for Q4 FY 2006 is less than the total number reported in prior quarters. This discrepancy is due to a different interpretation of the definition of “deployed.” In operational terms “deployed” means the collector is located in the threat city. It does not distinguish whether the collector is functioning operationally. The term “employed” is defined as functioning operationally. The numbers reported in Q4 FY 2006 are re-baselined as those collectors that are “employed.” In the future, number of “employed” collectors will be reported.				
Recommended Action:	Total number expected was 320 employed. Achieving full operational capability for the outdoor monitoring component of Gen 2 has taken longer than anticipated for several reasons, in part because DHS assumed responsibility for administration of the Cooperative Agreement money from EPA this year and the transition took several months. Additionally, Gen 2 enhancements required site permission and, as a result, collector installation took longer than anticipated. Some of the enhancement cities have also had state or local hiring freezes, which further delayed employment. The resolution of these issues will enable the program to meet its targets in coming fiscal years.				
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Program:	Biological Countermeasures - Science and Technology Directorate				

Performance Goal:	Provide dependable risk analyses, effective systems for surveillance, detection, and cleanup, and reliable chemical forensic analyses to protect the nation against chemical attacks.				
Performance Measure:	Percent completion of an effective restoration capability to restore key infrastructure to normal operation after a chemical attack.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	25%	25%	Met
Description:	The percentage of work that has been accomplished out of the total amount needed to prototype an effective capability that can restore key infrastructure to normal operations after a chemical attack.				
Explanation of FY 2006 Results:	The target of 25% was met, thus showing that the project is on track. Effort comprises three thrust areas: development and transition of mobile laboratory, prototype of fixed laboratories, and developing guidelines for decontamination. Mobile laboratory design features were developed in coordination with the Environmental Protection Agency and the program down-selected a performer for final prototype mobile lab, as well as a process for transitioning the final product to the Environmental Protection Agency in FY 2007. The program also surveyed fixed labs in Washington, DC and New York City regions for prototyping and down-selected three through interagency panel review. A market survey of decontamination technologies was completed. The final development of these new technologies will improve the protection of our nation from chemical attacks.				
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Program:	Chemical Countermeasures - Science and Technology Directorate				

Performance Goal:	Improve explosives countermeasures technologies and procedures to prevent attacks on critical infrastructure, key assets, and the public.				
Performance Measure:	Cumulative number of air cargo and rail passenger explosives screening pilots initiated.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	4	5	Met
Description:	The number of pilot programs initiated to derive concepts of operation, training requirements, and tailored equipment suites which may most effectively and efficiently screen a substantially higher percentage of rail passengers and air cargo before it is loaded on commercial flights in order to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Explanation of FY 2006 Results:	The target of four pilots was achieved. The results of these pilots will make future designs more robust, thus making air and rail travel safer. The second phase of the pilot program to screen people for improvised explosive devices (IEDs) in a rail station was initiated. The pilot program to screen Air Cargo for IEDs was started at the San Francisco International Airport. The logistics for two concurrent Air Cargo Pilot programs at Cincinnati/Northern Kentucky International Airport and Seattle-Tacoma International Airport are currently being worked.				
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Program:	Explosives Countermeasures - Science and Technology Directorate				

Performance Goal:	Advance capabilities for threat discovery and awareness, information management and sharing, linkage of threats with vulnerabilities, and capability and motivation assessments for terrorist organizations.				
Performance Measure:	Average of expert reviews of improvement in the national capability to assess threats of terrorist attacks.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	7	7	Met
Description:	The number of science and technology program areas reviewed for factors that include mission and user relevance, technical competency, management effectiveness, and collaborative efforts, with a special focus on integration and consolidation, to ensure that operational end users in the future will have the technology and capabilities needed to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Explanation of FY 2006 Results:	All seven program areas have been reviewed for relevance, technical progress, management effectiveness, and collaborations. Integration and consolidation were underway at the close of the fiscal year. These program area reviews provide for alignment across programs, strategies and technology. This means the Department's efforts will more likely provide the needed improvements in safety and security for the nation and its people.				
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Program:	Threat Awareness Portfolio - Science and Technology Directorate				

Performance Goal:	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.				
Performance Measure:	Number of Department of Homeland Security official technical standards introduced.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	15	15	Met
Description:	The number of standards introduced for adoption by the Department of Homeland Security - not all are adopted. The Standards Council and our working groups identify standards and examine their suitability for adoption. Only those standards with clear requirements and applicability are adopted.				
Explanation of FY 2006 Results:	Working with our partners - other Federal agencies and Standards development organizations, as well as our newly chartered Standards Council - the Standards program has greatly increased our communications with stakeholders and introduced more standards. By continuously reviewing standards for adoption, the Department improves its processes and communications to those who are on the front line of securing our nation.				

Performance Measure:	Percent of standards introduced that are adopted by Department of Homeland Security and partner agencies.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	67%	92%	Met
Description:	The percentage of standards and protocols for products, services, and systems that are adopted by the Department and its partner agencies, thus ensuring high levels of effectiveness among the technologies and capabilities end users need to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Explanation of FY 2006 Results:	Following the National Technology Transfer and Advancement Act, the Department of Homeland Security Science and Technology Standards focuses on standards developed and/or adopted by other agencies - ensuring interoperability and private sector accessibility while avoiding duplication of effort. By implementing sound standards, the Department improves its processes and communications to those who are on the front line of securing our nation.				
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Program:	Standards - Science and Technology Directorate				

Performance Goal:	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.				
Performance Measure:	Percentage of program funding dedicated to developing technologies in direct response to DHS components' requirements.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	80%	94%	Met
Description:	The percentage of science and technology funding that directly supports the development of technologies requested by the Department components, to ensure that operational end users are provided with the technology and capabilities they need to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Explanation of FY 2006 Results:	Exceeded target-reprioritization of requirements and program funds through interaction with the Department of Homeland Security Components resulted in a more focused set of programs. By working collaboratively with the components, funding is put toward those programs that will have the best likelihood of improving our nation's safety and security.				
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Program:	Support to Department of Homeland Security Components - Science and Technology Directorate				



Performance Goal:	Establish and sustain a coordinated university-based research, development and education system to enhance the Nation's homeland security.				
Performance Measure:	Percent of peer review adjectival ratings on University Programs' management and research and education programs that are very good or excellent.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	78%	54.3% (average)	Not Met
Description:	The percentage of those Department-funded University research, development, and education programs through the Centers of Excellence that are reviewed each year by relevant experts, and are rated as very good or excellent for quality, relevance, and effectiveness, to ensure that operational end users will have the technology and capabilities they need to detect and prevent terrorist attacks, means of terrorism and other illegal activities in the future.				
Explanation of FY 2006 Results:	University Programs conducted all scheduled and planned peer reviews for three Centers of Excellence during FY 2006. The Center for Risk and Economic Analysis of Terrorism Events (CREATE), the National Center for Food Protection and Defense (NCFPD) and the National Center for Foreign and Zoonotic Disease Defense (FAZD). CREATE's review occurred in the second quarter with an adjectival rating of very good or excellent--83%; In the 4th quarter NCFPD and FAZD received adjectival ratings of very good or excellent--61% and 19%, respectively. 54.3% is the average of percent of peer review adjectival ratings against the three Centers reviewed in FY 2006. These percentages reflect individual scores of very good or excellent and do not reflect the average of the reviewers. By ensuring the university-based research is focused and effective, the Department is making sure the funding for improved national security is maximized.				
Recommended Action:	University Programs will use these ratings and the input that reviewers provided to realign the Center's research and education to the Science and Technology Directorate's mission so that the Department's needs are met to the greatest extent possible.				
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Program:	University Programs - Science and Technology Directorate				

Performance Goal:	Prevent terrorist attacks by developing effective capabilities to characterize, assess, and counter new and emerging threats.				
Performance Measure:	Average customer satisfaction rating with risk assessments to identify potential future threats.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	7.5	9	Met
Description:	The number of science and technology program areas reviewed for factors that include mission and user relevance, technical competency, management effectiveness, and collaborative efforts, with a special focus on integration and consolidation, to ensure that operational end users in the future will have the technology and capabilities needed to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Explanation of FY 2006 Results:	All program areas have been reviewed for relevance, technical progress, management effectiveness, and collaborations. Integration and consolidation were underway at the close of the fiscal year. These program area reviews provide for alignment across programs, strategies and technology making the Department's efforts more likely to provide the needed improvements in safety and security for the nation and its people.				
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Program:	Emerging Threats - Science and Technology Directorate				

Performance Goal:	Identify and rapidly develop, prototype, and commercialize innovative technologies to thwart terrorist attacks.				
Performance Measure:	Number of prototypes delivered through DHS funded projects through Technical Support Working Group (TSWG), Rapid Technology Application Program (RTAP) and Small Business Innovation Research (SBIR) program.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	4	17	Met
Description:	This measure demonstrates how well the program is delivering prototypes within a short timeframe as well as through Small Businesses. (Prototypes that are delivered through the Rapid Technology Application Program (RTAP) meet an accelerated time frame for the deployment of advanced technologies so as to address urgent user requirements.)				
Explanation of FY 2006 Results:	Delivered FY 2006 prototypes include Personnel Protection Equipment, computer security tools (hardware & software), explosives & explosive detection device, investigative technology tools, Chemical/Biological/Nuclear detection and analysis tools. Some of the prototypes are currently being used by end-users, e.g. gas monitor sensor, bio-aerosol threat warning detector, personnel heat stress calculator, and computer security tools. These new technologies being prototyped will lead to fielded systems that will improve our nation's security.				
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Program:	Rapid Prototyping - Science and Technology Directorate				

Performance Goal:	Provide effective and economical capabilities to dramatically reduce the threat to commercial aircraft posed by man-portable anti-aircraft missiles.				
Performance Measure:	Increase in Mean Flight Hours Between Failure (MFHBF) from Phase II to Phase III.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	1100	0	Not Met
Description:	The number of flight hours that the Counter Man-Portable Air Defense System (MANPADS) systems operate and are available. This number is expected to increase with the increased number of hours of flights, increasing the system reliability and reducing the total life-cycle costs.				
Explanation of FY 2006 Results:	Flight test was originally projected to start in 4Q FY 2006. Once operational, this system will dramatically reduce the threat to commercial aircraft posed by man-portable anti-aircraft missiles.				
Recommended Action:	Because of the delay in making the OTA (Other Transaction Authority) awards, and the subsequent postponement of testing until Q1 FY 2007, the program was not able to make any progress in increasing the number of flight hours that the Counter-MANPADS systems operate and are available. Once the testing starts, however, the program fully expects to demonstrate improved performance. The program will also explore means to prevent future delays.				

Performance Measure:	Number of operational flight hours of Counter-MANPADS system conducted in a commercial aviation environment.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	300	0	Not Met
Description:	The number of hours that the Counter Man-Portable Air Defense System (MANPAD) has been tested in operational flights, used to validate and verify hardware reliability; maintenance, operational, and security procedures; and reduce operating costs, which will enable implementation onboard commercial aircraft, better protecting the flying public against acts of terrorism.				
Explanation of FY 2006 Results:	Suitability testing was originally projected to start in 4Q FY 2006. However, once operational, this system will dramatically reduce the threat to commercial aircraft posed by man-portable anti-aircraft missiles.				
Recommended Action:	Because of the delay in making the OTA awards, and the subsequent postponement of testing until Q1 FY 2007, the program was not able to make any progress in increasing the number of flight hours that the Counter-MANPADS systems are tested in operational flights. Once the testing starts, however, the program fully expects to demonstrate improved performance. The program will also explore means to prevent future delays.				
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Program:	Counter Man-Portable Air Defense System (MANPADS) - Science and Technology Directorate				

Performance Goal:	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.				
Performance Measure:	Percent of grant programs for public safety wireless communications that include "SAFECOM" Federal standards-approved grant guidance.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	100%	100%	Met
Description:	Measure demonstrates that the Office for Interoperability and Compatibility (OIC) effectively incorporates SAFECOM-approved grant guidance language into the grant documentation of its federal partners.				
Explanation of FY 2006 Results:	The Office for Interoperability and Compatibility has achieved its performance measure for FY 2006. Improved interoperability between emergency response agencies during emergencies will save lives.				

Performance Measure:	Percent of states that have initiated or completed a statewide interoperability plan, such as the Statewide Communications Interoperability Plan (SCIP).				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	26%	26%	Met
Description:	Measure tracks how well the Office for Interoperability and Compatibility (OIC) is encouraging the development of statewide interoperability plans.				
Explanation of FY 2006 Results:	Office for Interoperability and Compatibility has achieved its performance measure for FY 2006. Improved interoperability between emergency response agencies during emergencies will save lives.				
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Program:	Interoperability & Compatibility - Science and Technology Directorate				

Performance Goal:	Produce actionable information and recommend reliable technologies to help protect U.S. critical infrastructure.				
Performance Measure:	Number of analyses/simulations completed on the Critical Infrastructure Protection - Decision Support System (CIP-DSS) to provide actionable information to help protect U. S. critical infrastructure.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	4	4	Met

Description:	The cumulative number of scenarios developed and stored in the Critical Infrastructure Protection - Decision Support System (CIP-DSS). The CIP-DSS provides a rational, scientifically-informed approach for prioritizing critical infrastructure protection strategies and resource allocations using modeling, simulation, and analyses to assess vulnerabilities, consequences, and risks; develop and evaluate protection, mitigation, response, and recovery strategies and technologies; and provide real-time support to decision makers during crises and emergencies. This measure demonstrates the availability of actionable information to help protect the U.S.'s critical infrastructure from acts of terrorism, natural disasters, and other emergencies.
Explanation of FY 2006 Results:	The Critical Infrastructure Protection-Decision Support System has provided analyses for Hurricane Katrina response planning, Avian Influenza planning, a chemical release scenario, and a biological outbreak. These scenarios and analyses will be used to improve our ability to protect our nation's infrastructure.
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.
Program:	Critical Infrastructure Protection - Science and Technology Directorate

Performance Goal:	Enable the creation of and migration to a more secure critical information infrastructure.				
Performance Measure:	Cumulative number of cyber security data sets contained in protected repository.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	100	68	Not Met
Description:	Measure tracks the cumulative number of data sets available in the protected repository. In FY 2006 the Science and Technology (S&T) Directorate continued the ongoing collection, refreshing, and sharing of data sets, and addition of new partners as applicable for the Protected Repository for the Defense of Infrastructure against Cyber Threats (PREDICT) repository. This is important because the repository needs to continually add new data that will contain the latest cyber attacks so that the cyber security research community can have the most recent information to help them improve the quality of their research results.				
Explanation of FY 2006 Results:	Achieved 68 datasets in the data repository for FY 2006. Did not meet target of 100 data sets because the PREDICT repository was put on hold due to issues with the Department of Homeland Security's Privacy Office.				
Recommended Action:	The program did not meet its target for FY 2006 because the PREDICT repository was put on hold. In FY 2007, the program plans to work with the Department of Homeland Security Privacy Office to resolve the issue so that the program can resume full operation.				
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Program:	Cyber Security - Science and Technology Directorate				

Performance Goal:	Encourage the development and deployment of anti-terrorism technologies by awarding SAFETY Act benefits to homeland security technology producers.				
Performance Measure:	Percentage of full applications that receive liability protection under the SAFETY Act.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	65%	100%	Met
Description:	As part of the Homeland Security Act of 2002, Public Law 107-296, Congress enacted the SAFETY (Support Anti-Terrorism by Fostering Effective Technologies) Act to provide certain protections for sellers of qualified anti-terrorism technologies and others in the supply and distribution chain. Specifically, the SAFETY Act creates certain liability limitations for "claims arising out of, relating to, or resulting from an act of terrorism" where qualified anti-terrorism technologies have been deployed. This measure provides the percentage of applications for which the Department granted liability protection out of all those evaluated. This liability protection helps to encourage the development of effective technologies aimed at preventing, detecting, identifying, or deterring acts of terrorism, or limiting the harm that such acts might otherwise cause.				
Explanation of FY 2006 Results:	Although a significant amount of time was spent assisting the applicants with the process to ensure these results, we achieved a 100% success. This success helps ensure our producers are not constrained by issues that would affect their ability to provide the needed products and services to secure our nation.				
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities.				
Program:	SAFETY Act - Science and Technology Directorate				

Performance Goal:	AS STATED IN THE FY 2006 ANNUAL PERFORMANCE PLAN: Reduce the probability of a successful terrorist or other criminal attack to the air transportation system by improved passenger and baggage screening processes. 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 aviation security.				
Performance Measure:	Percent of the nationally critical aviation transportation assets or systems that have been assessed during the fiscal year and have mitigation strategies in place to reduce risk.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	33%	33%	33%	Met
Description:	The percentage of aviation assets on the 'Nationally Critical Transportation Assets' list that have had vulnerability assessments completed during the fiscal year as compared with the total number of assets. Current annual plans require one-third of aviation assets to be assessed annually for a continuous three-year cycle. Vulnerability Assessment assumes that all airports are meeting baseline compliance of security regulations outlined in 49CFR1542. Vulnerability Assessment involves identifying vulnerabilities of existing approved security practices and procedures, in order to reduce the probability of a successful terrorist or other criminal attack to the air transportation system.				
Explanation of FY 2006 Results:	In FY2006, 33 percent of nationally-critical aviation transportation assets or systems have been assessed and have mitigation strategies in place to reduce risk, which meets the target of 33 percent annually for a 3-year cycle. TSA conducted Joint (TSA/FBI) Vulnerability Assessments (JVAs) to determine where vulnerabilities exist at the airports deemed nationally critical. Success in this area will help ensure that there is a reduced probability of a successful terrorist or other criminal attack to the air transportation system by improved aviation security				

Performance Measure:	Level of the Customer Satisfaction Index (CSI-A) for Aviation Operations.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	78	81	81	Met
Description:	The CSI -A is a composite index incorporating data on security confidence, passenger surveys, and compliments/complaint data on screener performance. TSA aspires to provide effective screening operations with minimum disruption to the traveling public. CSI-A is scaled where 0 is very dissatisfied, 25 is dissatisfied, 75 is satisfied, and 100 is very satisfied.				
Explanation of FY 2006 Results:	In FY2006, the score on the Customer Satisfaction Index for Aviation (CSI-A) reached 81, a new level for customer satisfaction with screening operations at the nation's security checkpoints. This score, when considered with other performance measures, indicates that TSA was able to perform necessary checkpoint screening operations to prevent and protect against adverse actions, while maintaining a high level of customer satisfaction.				

Performance Measure:	Passenger screening covert test results (percent of screeners correctly identifying and resolving).				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	Classified	Classified	Classified	Met
Description:	This measures the percentage of the time that passenger Transportation Security Officers (TSO's) correctly identify prohibited material during covert tests, in order to reduce the probability of a successful terrorist or other criminal attack to the air transportation system. The target and actual results are classified for security reasons and are not releasable to the public at this time.				
Explanation of FY 2006 Results:	The strong results of the Screener Training Exercises and Assessments (STEA) program indicate that the TSO's are adept in the performance of their duties and are providing a more secure environment for air travel and the traveling public, thus, in part, fulfilling the mission of TSA and DHS. The goal of the STEA program is to educate TSO's on a variety of threats that they may face in as real-world an environment as possible.				

Performance Measure:	Baggage screening covert test results (percent of screeners correctly identifying and resolving).				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	Classified	Classified	Met
Description:	This measures the percentage of the time that baggage Transportation Security Officers (TSO's) correctly identify prohibited material in baggage during covert tests, in order to reduce the probability of a successful terrorist or other criminal attack to the air transportation system. The target and actual results are classified and are not releasable to the public at this time for security reasons.				
Explanation of FY 2006 Results:	The strong results of the STEA program indicate that the TSO's are adept in the performance of their duties and are providing a more secure environment for air travel and the traveling public, thus, in part, fulfilling the mission of TSA and DHS. The goal of the STEA program is to educate TSO's on a variety of threats that they may face in as real-world an environment as possible.				
Objective/s Supported:	2.3 - Provide operational end users with the technology and capabilities to detect and prevent terrorist attacks, means of terrorism and other illegal activities. 2.5 - Strengthen the security of the Nations transportation systems. 3.1 - Protect the public from acts of terrorism and other illegal activities.				
Program:	Aviation Security - Transportation Security Administration				



Performance Goal:	Reduce the probability of a successful terrorist or other criminal attack on surface transportation systems through the issuing of standards, compliance inspections, and vulnerability assessments.				
Performance Measure:	Percent of nationally critical surface transportation assets or systems that have been assessed during the fiscal year and have mitigation strategies in place to reduce risk.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	.75%	3.57%	0	Not Met
Description:	The total number of surface assets on the 'Nationally Critical Transportation Assets' list that have had vulnerability assessments completed during the fiscal year and have created mitigation strategies in order to reduce the probability of a successful terrorist or other criminal attack on surface transportation systems.				
Explanation of FY 2006 Results:	TSA uses a risk-based approach that makes the most of both public and private resources. It focuses on those assets and systems most critical to the Nation's surface transportation. Those assets and systems are assessed to identify gaps or vulnerabilities to which mitigation strategies may be developed to reduce the risk. At the origination of this measure TSA had access to only one Department-sanctioned vulnerability assessment tool. Since that time, the Department has recognized several viable alternative vulnerability assessment tools that provide additional efficient options for conducting risk assessments, such as making use of assessments conducted by other Federal entities. In FY 2006, the Surface Transportation Security Program underwent an OMB Program Assessment Rating Tool (PART) assessment that changed the wording of this annual measure to better reflect its content and emphasize these important first steps towards risk reduction.				
Recommended Action:	In the future, this measure will be replaced by the following PART measure: "Percentage of nationally critical surface transportation assets or systems that have been assessed and have mitigation strategies developed based on those assessments." This new measure expands the data that is collected to include assessments made by multiple Federal agencies which provide a more complete picture of the assets or systems assessed. This measure revision will enable TSA to meet a more appropriate target in the future. Through participation in the Federal Risk Assessment Working Group (FRAWG) and direct communication with our federal partners, TSA has visibility into the assessments conducted by other federal agencies. TSA is managing the surface transportation assessment efforts conducted at the nationally critical surface transportation assets and systems.				
Objective/s Supported:	2.5 - Strengthen the security of the Nations transportation systems.				
Program:	Surface Transportation Security - Transportation Security Administration				

Performance Goal:	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.				
Performance Measure:	Number of successful terrorist and other criminal attacks initiated from commercial passenger aircraft cabins with Federal Air Marshal Service (FAMS) coverage.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	0	0	0	0	Met
Description:	The number of successful criminal attacks initiated from commercial passenger aircraft cabins while at least one Federal Air Marshal was aboard. The Federal Air Marshals are trained to detect, deter, and defeat hostile acts targeting U.S. air carriers, airports, passengers, and crews.				
Explanation of FY 2006 Results:	During FY 2006, there were no successful terrorist/criminal attacks initiated from commercial passenger aircraft cabins while at least one Federal Air Marshal was aboard. The presence of Federal Air Marshals within the aviation domain, specifically on commercial aircraft has proven to be an effective deterrent that mitigates the threat of criminal attacks originating from passenger aircraft cabins. There is a reasonable expectation that the continued deployment of Federal Air Marshals will successfully defeat future terrorist and other criminal in-air attacks on commercial aircraft.				

Performance Measure:	Percentage level in meeting Federal Air Marshal Service (FAMS) mission and flight coverage targets for each individual category of identified risk.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	Classified	Classified	Classified	Classified	Met
Description:	This is a measure of the performance levels of FAMS coverage of targeted critical flights based upon impact (geographical location), vulnerability (aircraft destructive potential), threats, and intelligence relative to the availability of resources. Coverage is provided to those flights that have been identified as Targeted Critical Flights for deployment under 10 individual risk categories that were identified in the FAMS Concept of Operations. Coverage is provided using a risk-based management approach for mission planning.				
Explanation of FY 2006 Results:	During FY 2006, there were no successful terrorist/criminal attacks initiated from commercial passenger aircraft cabins while at least one Federal Air Marshal was aboard. The presence of Federal Air Marshals within the aviation domain, specifically on commercial aircraft has proven to be an effective deterrent that mitigates the threat of criminal attacks originating from passenger aircraft cabins. There is a reasonable expectation that the continued deployment of Federal Air Marshals will successfully defeat future terrorist and other criminal in-air attacks on commercial aircraft.				
Objective/s Supported:	2.5 - Strengthen the security of the Nations transportation systems. 3.1 - Protect the public from acts of terrorism and other illegal activities.				
Program:	Federal Air Marshal Service - Transportation Security Administration				

Performance Goal:	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.				
Performance Measure:	Number of biometric watch list hits for travelers processed at ports of entry.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	2059	1850	1941	Met
Description:	US-VISIT supports Customs and Border Protection in identifying persons of interest and taking appropriate actions at ports of entry. A hit occurs when the biometric data provided by a traveler matches biometric data contained in a biometric watch list. This measure reflects hits resulting from biometric matching alone, which means that these referrals to officers would not have been made through queries solely of biographic watch lists.				
Explanation of FY 2006 Results:	From inspection of the data, US-VISIT uncovered evidence that as the number of hits at the consular offices rises, the number of hits at the ports of entry falls.				

Performance Measure:	Number of biometric watch list hits for visa applicants processed at consular offices.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	897	800	2558	Met
Description:	US-VISIT provides the ability to identify persons of interest at consular offices, which creates a virtual border and contributes to the strategic goal of prevention. This measure reflects the ability of US-VISIT to provide consular offices with useful information on which they can base their decisions on visa applications.				
Explanation of FY 2006 Results:	The second quarter figures rose 56% over the first quarter numbers, with a corresponding decrease in hits at the POEs. From inspection of the data, we have uncovered evidence that as the number of hits at the consular offices rises, the number of hits at the ports of entry falls.				

Performance Measure:	Ratio of adverse actions to total biometric watch list hits at ports of entry.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	30%	33%	21%	Not Met
Description:	US-VISIT seeks to get the right information to the right individuals to make decisions regarding admissibility into the U.S. This measure captures efforts by US-VISIT to work with its partner agencies to continually improve the value of the information provided. The decision not to admit is considered an adverse action.				
Explanation of FY 2006 Results:	US-VISIT is still investigating the factors that resulted in the FY2006 actual indicator of 21%, which is lower than the FY2006 target indicator of 33%. These factors include the random movement of travelers due to seasonal variation, the composition of the watch lists, and the severity of criminal histories associated with the watch lists. Since FY2006 is the second year of capturing data for this measure and the first year of trending this data, the target indicator for future years will be adjusted based on the data captured in FY2006.				
Recommended Action:	US-VISIT is reconsidering both the performance targets for this measure and the performance measure itself due to factors outside of the control of the program. These factors include: the composition of the watch list; the types and severity of criminal histories that trigger adverse action by law enforcement; the traveler volume randomly and seasonally arriving at the ports. US-VISIT is addressing developing a new measure that better captures the continuous improvement of data shared between US-VISIT and its partner agencies.				

Objective/s Supported:	2.1 - Secure our borders against terrorists, means of terrorism, illegal drugs and violations of trade and immigration laws. 6.4 - Facilitate the efficient movement of legitimate cargo and people.
Program:	US-VISIT (Previously Screening Coordination Office) - U S Visitor and Immigrant Status Indicator Technology

Performance Goal:	Eliminate maritime fatalities and injuries on our Nation's oceans and waterways.				
Performance Measure:	Maritime Injury and Fatality Index				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	1,293	1,277	1,280	1,400	Not Met
Description:	This measure evaluates how well the Coast Guard Marine Safety Programs prevent maritime fatalities and injuries by comparing the current period to those of previous periods. This measure is a five-year average of reportable Passenger and Mariner deaths & injuries for the current and four previous calendar years, and Recreational Boating fatalities for the current year. There is no denominator. Passenger deaths & injuries include reportable casualties of commercial passengers on U.S. vessels operating in any waters and commercial passengers on foreign flag vessels operating in U.S. waters. Mariner deaths & injuries include casualties of crewmembers or employees aboard U.S. commercial vessels. Passenger and Mariner Data are collected from USCG Marine Information for Safety and Law Enforcement System. Recreational Boating fatalities are derived from data provided by State Boating Law Administrators and captured in the USCG Boat Accident Report Database.				
Explanation of FY 2006 Results:	The five-year average number of commercial deaths and injuries added to the annual deaths from recreational boating in 2006 increased to 1,400 in FY 2006, a number that exceeds the 2006 target of 1,280. There were 33 more boating deaths reported in 2006, however this is within normal variation and is less than a 1% increase in the five-year average. Commercial deaths & injuries were also within normal variation with the change in five-year average due largely to increased passenger injuries. Our 2006 target was ambitiously set last year based in part on anticipated towing vessel regulations that were not yet fully implemented. Completion of these regulations, as well as proposed changes to requirements for safety/survival systems and a requirement that vessels subject to fishery observers have a current safety decal are expected to favorably impact future results. Please note that data for the period just ended is likely to change as more data becomes available.				
Recommended Action:	Completion of towing vessel regulations which will allow for the inspection and certification of towing vessels currently not inspected as well as finalization of proposed changes to requirements for safety/survival systems are expected to favorably impact future results. In addition, an additional increase of grant funds will be made available to the States and national nonprofit organizations in FY 2007 for boating safety programs, thus resulting in increased boating safety efforts. Further, through the development and implementation of a new national boating survey, the Coast Guard will substantially enhance its capability for data gathering, analysis, and problem definition concerning recreational boating accidents, thus allowing us to target our efforts and resources more effectively.				
Objective/s Supported:	1.1 - Gather, fuse, and analyze all terrorism and threat related intelligence. 1.4 - Develop a Common Operating Picture for domestic situational awareness, including air, land, and sea. 2.5 - Strengthen the security of the Nations transportation systems.				
Program:	Marine Safety - United States Coast Guard				

Performance Goal:	Reduce the flow of illegal drugs entering the U.S. via non-commercial maritime shipping sources.				
Performance Measure:	Removal rate for cocaine that is shipped via non-commercial maritime means.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	30.7%	27.3%	22%	22% (estimate based on 105.58 Metric Tons seized)	Estimated - Met
Description:	<p>The percentage of cocaine shipped through maritime routes that was intended to enter the U.S., but did not because of the efforts of the U.S. Coast Guard. The Cocaine Removal Rate reflects the amount of cocaine lost to the smuggler through seizures (documented in the DEA 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 report). Since it is estimated that a 35% to 50% disruption rate would prompt a collapse of profitability for smugglers, the removal rate measure allows for a direct evaluation of the Coast Guard's efforts in disrupting the market as prescribed by National Priority III of the National Drug Control Strategy.</p>				
Explanation of FY 2006 Results:	<p>Several external factors such as intelligence and interagency cooperation play a vital role in the Coast Guard's drug interdiction mission. These efforts enable Coast Guard commanders to best position assets for anticipated interdictions. FY 2005 was a record breaking year for cocaine seizures. The FY 2006 target aligns with National Priority III, Disrupting the Market of the 2004 National Drug Control Strategy promulgated by the Office of the National Drug Policy. Flow data used in the performance metric are developed annually and published in the Interagency Assessment of Cocaine Movement (IACM). This report is not published until July of the following year. We estimate that we will meet the 22% target based on the 105.58 Metric Tons of cocaine seized the year in comparison with FY 2005.</p>				
Objective/s Supported:	<p>1.1 - Gather, fuse, and analyze all terrorism and threat related intelligence.  1.4 - Develop a Common Operating Picture for domestic situational awareness, including air, land, and sea.  2.1 - Secure our borders against terrorists, means of terrorism, illegal drugs and violations of trade and immigration laws.</p>				
Program:	Drug Interdiction - United States Coast Guard				

Performance Goal:	Eliminate the flow of undocumented migrants via maritime routes to the U.S.				
Performance Measure:	Percentage of undocumented migrants who attempt to enter the U.S. via maritime routes that are interdicted or deterred.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	87.1%	85.5%	89%	less than 89% (7,885 migrants interdicted)	Estimated - Not Met
Description:	<p>The Coast Guard 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 &amp; Chinese 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% 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 &amp; other law enforcement agencies. In FY06 USCG will track the number of successful landings via maritime means of all nationalities.</p>				
Explanation of FY 2006 Results:	<p>Maritime Migration and Human Smuggling Monthly Flow Reports are typically published 30-45 days after the end of each month. Based on an estimate of 5,500 successful landings, we anticipate falling slightly short of the 89% target. Cuban interdictions remain more than twice FY 2004, while Haitian and Dominican interdictions dropped by 652 and 598, respectively. Lacking an effective legal deterrent, migrant smugglers operate with near impunity which drives the performance gap. An improved performance measure will be implemented in FY 2007 based on an independent program evaluation.</p>				
Recommended Action:	<p>Two performance improvement initiatives being pursued include the use of biometrics to identify and subsequently prosecute persons attempting to re-enter the U.S. illegally, including wanted felons and smugglers, and implementing the Maritime Alien Smuggling Law Enforcement Act to improve the viability of maritime migrant smuggling prosecutions and civil forfeiture of vessels outfitted for migrant smuggling.</p>				
Objective/s Supported:	<p>1.1 - Gather, fuse, and analyze all terrorism and threat related intelligence.                      1.4 - Develop a Common Operating Picture for domestic situational awareness, including air, land, and sea.                      2.1 - Secure our borders against terrorists, means of terrorism, illegal drugs and violations of trade and immigration laws.                      6.3 - Support the United States humanitarian commitment with flexible and sound immigration and refugee programs.</p>				
Program:	Migrant Interdiction - United States Coast Guard				

Performance Goal:	Reduce the numbers of vessel incursions into the United States Exclusive Economic Zone (EEZ).				
Performance Measure:	Number of incursions into the U.S. Exclusive Economic Zone.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	247	171	199	164	Met
Description:	<p>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 U.S. 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% of the world's fishery resources. The Magnuson-Stevens Act charges the Coast Guard to enforce fisheries regulations within it. Coast Guard 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.</p>				
Explanation of FY 2006 Results:	<p>The Gulf of Mexico accounts for the vast majority of illegal EEZ incursions, with 146 of the 161 total for FY 2006. The CG established meetings with Mexican enforcement agencies to increase fisheries law enforcement co-operation on the US/MX maritime border. Meetings, in December 2005, and July 2006 established a co-operative foundation upon which the Coast Guard hopes to build a more functional working relationship with MX fisheries enforcement personnel. Through this partnership we have developed procedures for turnover of interdicted vessels, case information, and prosecutorial feedback – this cooperation is intended to yield increased deterrence as the procedures are implemented by both sides. The Coast Guard continued its efforts, with increased success in 2006 to monitor, detect, and interdict foreign fishing vessel incursions into the US EEZs of the Western Central Pacific and along the maritime boundary line with Russia in the Bering Sea.</p>				
Objective/s Supported:	<p>1.1 - Gather, fuse, and analyze all terrorism and threat related intelligence.  1.4 - Develop a Common Operating Picture for domestic situational awareness, including air, land, and sea.  2.1 - Secure our borders against terrorists, means of terrorism, illegal drugs and violations of trade and immigration laws.</p>				
Program:	Other LE (law enforcement) - United States Coast Guard				



Performance Goal:	Support our national security and military strategies by ensuring assets are at the level of readiness required by the combatant commander.				
Performance Measure:	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.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	76%	69	100%	62%	Not Met
Description:	<p>This measure uses the Navy SORTS reporting system to assess the readiness of Coast Guard 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. 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. * "2 or better" indicates that a unit possesses the resources necessary and is trained to undertake most of its wartime missions.</p>				
Explanation of FY 2006 Results:	<p>In FY 2006, the USCG did not meet its Defense Readiness performance target. The shortfall was primarily driven by: equipment casualties attributable to an aging cutter fleet and limited annual reserve training time that precluded the rapid accomplishment of both personnel and unit training requirements for Port Security Units (PSUs). The previous years' shortfalls in PSU manning levels have been eliminated.</p>				
Recommended Action:	<p>Continue personnel and unit level training regimes at PSUs within the reserve program available annual drills. Refine reporting requirements as the Navy SORTS reporting system is replaced with the Defense Readiness Reporting System. With regard to equipment casualties that effected readiness, it is expected that continued implementation of the Integrated Deepwater System will reduce such occurrences.</p>				
Objective/s Supported:	<p>1.1 - Gather, fuse, and analyze all terrorism and threat related intelligence.                      1.4 - Develop a Common Operating Picture for domestic situational awareness, including air, land, and sea.                      2.4 - Coordinate national and international policy, law enforcement, and other actions to prevent terrorism.</p>				
Program:	Defense Readiness - United States Coast Guard				

Performance Goal:	Enhance the integrity of the legal immigration system.				
Performance Measure:	Conduct Benefit Fraud Assessment on X Form Types and report as percentage of fraudulent cases found.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	33% (I-360, Petition for Amerasian, Widow(er), or Special Immigrant)	3 Form Types	3 Form Types	Met
Description:	The Office of Fraud Detection and National Security conducts Benefit Fraud Assessments using statistically random samplings of immigration form types, pulled from pending and completed cases, that historically have been identified as fraud prone or high risk-oriented. These assessments help ensure the security and integrity of the immigration system. Note: The Benefit Fraud Assessment for Form I-90, Application to Replace Permanent Resident Card, was previously reported as completed during FY 2005. It was actually finalized in FY 2006.				
Explanation of FY 2006 Results:	During FY 2006, Benefit Fraud Assessments (BFA) were completed on three form types. The forms and resulting fraud rates were: I-90, Application to Replace Permanent Resident Card) 1%, I-140, Immigrant Petition for Alien Worker EW3 (unskilled) 11%, I-140 E31 (skilled) 11%. The BFAs for the I-140 represent two separate immigrant classifications; one representing skilled workers, and the other unskilled workers. Both classifications in this BFA show overall fraud rates of 11%. BFA results are used to develop and propose procedural and legislative changes to counteract fraud. These assessments help ensure the security and integrity of the immigration system.				

Performance Measure:	Number of form types where procedural and/or legislative changes to counteract fraud are proposed as a result of Benefit Fraud Assessments				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	3	3	Met
Description:	The number of types of immigration transactions where proposed procedural or legislative changes have been offered in order to combat fraud as a result of the fraud assessments that have been conducted. These fraud assessments help to ensure the security and integrity of the immigration system by identifying needed improvements to procedures or legislation.				
Explanation of FY 2006 Results:	The Benefit Fraud Assessment for Form I-360, Petition for Amerasian, Widow(er), or Special Immigrant, resulted in several changes to Standard Operating Procedures (SOP) for religious workers which include additional background checks on forms I-360, I-129, Petition for A Nonimmigrant Worker, and I-485, Application to Register Permanent Residence or to Adjust Status, as well as 100% Administrative Site Visits for I-360 religious worker petitions. The Office of Fraud Detection and National Security memorandum concerning the I-360 BFA has been signed and forwarded to the field. A proposed rule for religious workers was also forwarded to DHS/HQ. BFAs help to ensure the security and integrity of the immigration system.				
Objective/s Supported:	2.6 - Ensure the security and integrity of the immigration system.				
Program:	Immigration Security and Integrity - United States Citizenship and Immigration Services				

## 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 Nations 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 2006 to achieve this goal is provided below.

Performance Goal:	Reduce the impact of natural hazards on people and property through the analysis and reduction of risks and the provision of flood insurance.				
Performance Measure:	Percent of the national population whose safety is improved through the availability of flood risk data in Geospatial Information System (GIS) format.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	5%	38.6	50%	47.7%	Not Met
Description:	The cumulative percentage of the national population that has updated digital flood risk data available online for their community. This digital data replaces old-fashioned paper flood maps. There are some communities, representing 8% of the population, with little to no flood risk, that will not be mapped. The availability of this information helps to protect American citizens against natural or man-made disasters.				
Explanation of FY 2006 Results:	At the end of FY06, preliminary results, as of October 5, 2006, indicate that 47.7-percent was achieved. Primary factors contributing to this shortfall include issues associated with levees and Hurricanes Katrina and Rita. Data to demonstrate that certain levees provide adequate flood protection is not readily available. Delays in obtaining these data have caused digital map production for approximately 6% of the U.S. population to be delayed or placed on hold in FY06.				

Recommended Action:	FEMA issued guidance in September 2006 that allows mapping partners to issue preliminary flood maps while communities and levee owners gather documentation to demonstrate that levees provide adequate flood protection. Hurricanes Katrina and Rita impacted many communities scheduled to receive digital flood maps in FY05 and FY06. Many areas were put on hold to reassess the floodplain delineations and incorporate new information. Some communities received preliminary maps in FY06. However, many communities, approximately 1% of the U.S. population, did not receive preliminary maps due in part to technical issues encountered while performing new analyses. FEMA addressed these issues by updating the Guidelines and Specifications and worked with U.S. Army Corps of Engineers to improve storm surge modeling procedures which are being applied to map coastal hazards in Louisiana and Mississippi. FEMA projects the 50% mark will be achieved in 1st quarter FY07.
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Performance Measure:	Number of communities taking or increasing action to reduce their risk of natural or man-made disaster				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	750	735	585	1555	Met
Description:	The number of American communities who have taken action or increased their measures to reduce the risk of a natural or man-made disaster, thus protecting American citizens.				
Explanation of FY 2006 Results:	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, the Risk Reduction Branch coordinated with FEMA's Individual Assistance programs and National Emergency Management Information System (NEMIS) developers to make millions of property addresses damaged by hurricanes available in support of the Hazard Mitigation Grant Program. This accomplishment is saving the government in staff time and resources, promoting increased efficiency, and ensuring greater data and reporting integrity. In addition, 3 Electronic-Grants External System Training Workshops were delivered in February and March of 2006. State and local participants were trained on developing and submitting grant applications, accepting grant award packages, and preparing and submitting quarterly reports.				

Performance Measure:	Potential property losses, disasters, and other costs avoided				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	\$1.949B	\$1.895	\$2.27B	2.3B	Met
Description:	The estimated dollar value of losses to the American public which were avoided or averted through flood insurance. Losses are avoided to property (buildings and infrastructure) through the provision of: 1) Financial and technical assistance to States, Territories, Tribes, and communities authorities to implement pre-identified, cost-effective mitigation measures (via Hazard Mitigation Assistance); 2) Sound flood hazard management at States, Territories, Tribes, and communities (Floodplain Management); 3) State-of-the-art building science technologies, guidance and expertise for natural and man-made hazards (Disaster-Resistant Building Sciences), thus protecting American citizens from disasters through assistance, education, and technology.				
Explanation of FY 2006 Results:	The Risk Reduction Branch assisted the Regional Offices with over 900 map adoptions in fiscal year 2006, representing a 63% increase over fiscal year 2005 also enrolling 185 communities into the National Flood Insurance Program. The Severe Repetitive Loss program was developed to develop incentives for States and communities to mitigate severe repetitive loss properties.				

Objective/s Supported:	3.7 - Strengthen nationwide preparedness and mitigation against acts of terrorism, natural disasters, or other emergencies.
Program:	Mitigation - Federal Emergency Management Agency

Performance Goal:	Help ensure the nation is ready to respond to and recover from acts of terrorism, natural disasters, or other emergencies through implementation of the National Incident Management System (NIMS) and the provision of emergency management training.				
Performance Measure:	Percent of respondents reporting they are better prepared to deal with disasters and emergencies as a result of training				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	83%	84.3%	80%	90%	Met
Description:	The percentage of students attending training at the Emergency Management Institute (EMI) and FEMA's Employee Development program who responded to a survey and indicated that they are better prepared to deal with disasters and emergencies as a result of the training they received. Respondents may answer "yes," "no," or "no opportunity since completing the training." This training provides Federal, State, local and tribal officials having key emergency responsibilities with the knowledge and skills needed to strengthen nationwide preparedness and respond to, recover from, and mitigate against acts of terrorism, natural disasters, and other emergencies.				
Explanation of FY 2006 Results:	This measure currently represents a roll-up of both EMI training data and FEMA's Employee Development training program. The original target also includes the National Fire Academy training data which has since transferred out of FEMA.				

Performance Measure:	Percent of Federal, State, Local and Tribal Governments compliant with the National Incident Management System (NIMS)				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	82%	100%	100%	Met
Description:	This measure tracks the percentage of critical partners who are compliant with the National Incident Management System (NIMS). Federal Agencies were required to identify a point of contact within their agency to act as a liaison with NIMS Integration Center (NIC), create a NIMS Implementation Plan, incorporate NIMS into their respective Emergency operations Plans, and train all appropriate personnel in the NIMS standard training curriculum. States are required to submit self-certification of compliance based on 23 compliance requirements in the NIMCAST system. The DHS Office of Grants and Training (OG&T) and the NIC coordinate to monitor the previous year's submission of NIMS implementation within States. Selective data audits, field monitoring and continuous refinements on reporting metrics to identify inconsistencies and errors are used to ensure reliability.				

Explanation of FY 2006 Results:	The self-certification process was chosen for the first two years of the program to allow State and local governments to receive adequate technical assistance and support to meet NIMS compliance requirements. Full NIMS implementation is a multi-year phase-in process with important linkages to the National Response Plan (NRP) and the National Preparedness Goal. Beginning in FY 2007, compliance will be performance-based and will be monitored by the DHS Office of Grants and Training (OGT). While compliance in FY 2005 and FY 2006 was through a self-certification system, compliance with a performance-based metrics system, which will come on line in 2007.
Objective/s Supported:	3.7 - Strengthen nationwide preparedness and mitigation against acts of terrorism, natural disasters, or other emergencies.
Program:	Readiness - Federal Emergency Management Agency

Performance Goal:	Ensure all Federal Departments and Agencies have fully operational Continuity of Operations (COOP) and Continuity of Government (COG) capabilities.				
Performance Measure:	Percent of fully operational Continuity of Government (COG) capabilities				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	75%	20%	70%	70%	Met
Description:	The percentage of federal departments and agencies that have developed and exercise plans to ensure the continuity of government operations and essential functions in the event of crisis or disaster.				
Explanation of FY 2006 Results:	Current Continuity of Government (COG) operational capability has been achieved through successful implementation of a quarterly interagency test, training & exercise program in accordance with current policy.				

Performance Measure:	Percent of Federal Departments and Agencies with fully operational Continuity of Operations (COOP) capabilities				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	70%	90%	95%	95%	Met
Description:	The Federal Emergency Management Agency (FEMA) works with federal departments and agencies to develop and exercise plans that ensure the continuation of federal operations and the continuity and survival of an enduring constitutional government. FEMA collects the results of exercises and self-assessments to measure the percentage of departments and agencies that have in place the necessary plans and capabilities.				
Explanation of FY 2006 Results:	The implementation of a successful Continuity of Operations (COOP) capability was demonstrated by Federal Departments and Agencies, as listed in the COOP Deployment Options Matrix, during Forward Challenge 2006. Federal Departments and Agencies successfully completed an alert and notification test, deployed emergency relocation teams, and tested the ability to perform essential functions from an alternate facility.				
Objective/s Supported:	3.5 - Ensure the continuity of government operations and essential functions in the event of crisis or disaster.				
Program:	National Security - Federal Emergency Management Agency				

Performance Goal:	Complete and continuous law enforcement and security protection of federally controlled facilities, their tenants, and the visiting public.				
Performance Measure:	Effectiveness of Federal Protective Service Operations measured by the Federal Facilities Security Index				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	92%	100%	66.5%	Not Met
Description:	<p>The Federal Facilities Security Index quantifies the overall effectiveness of 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%) or greater reflects accomplishment of, or exceeding, performance targets. A security index of less than one reflects failure to meet performance goals to protect government employees and the public from acts of terrorism and other illegal activities, and reduce infrastructure vulnerability from acts of terrorism or other criminal activity.</p>				
Explanation of FY 2006 Results:	<p>Based on the FY 2005 results, targets for FY 2006 and out-years have been set and they reflect a range of a six to twenty percent increase in effectiveness. These measures, built upon a risk-based security program will enable FPS to better protect and reduce vulnerabilities in Federal facilities. 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. The ability of the FPS to meet the previously established performance target for the Federal Facilities Security Index was adversely affected by the unanticipated revenue shortfall and the startup delays inherent in full implementation of the new measures, testing and reporting protocols in FY 2006.</p>				
Recommended Action:	<p>Adjustments have been made to integrate funding and planning for new threat countermeasure projects and the testing and reporting protocols are now fully operational. As such, the FPS is confident that the targets for FY 2007 can be successfully accomplished.</p>				
Objective/s Supported:	<p>3.1 - Protect the public from acts of terrorism and other illegal activities.                      3.2 - Reduce infrastructure vulnerability from acts of terrorism.                      3.5 - Ensure the continuity of government operations and essential functions in the event of crisis or disaster.</p>				
Program:	Protection of Federal Assets-Federal Protective Service - United States Immigration and Customs Enforcement				



Performance Goal:	Strengthen the Nation's capacity to prepare for and respond to natural or other disasters.				
Performance Measure:	Percent of recommendations made by reviewing authorities (i.e., IG, OMB, GAO) that are implemented within 1 year.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	100%	90%	Est. 95%	Estimated - Met
Description:	This measure assesses the progress of National Preparedness Task Force (NPTF) programs in implementing recommendations from independent reviewing authorities. Successful implementation of these recommendations demonstrates NPTF's progress in improving the management and performance of its programs. NPTF collects information on recommendations made by independent reviewing authorities and evaluates which recommendations have been implemented within one year.				
Explanation of FY 2006 Results:	Fiscal year 2006 actual results for this measure are estimated and are expected to meet the 90% 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 FY 2007. The NPTF has already made significant progress on this measure, identifying 19 of 20 recommendations that are either completed or nearly completed. Actual FY 2006 results will be reported in the FY 2007 Performance and Accountability Report.				
Objective/s Supported:	3.2 - Reduce infrastructure vulnerability from acts of terrorism. 3.7 - Strengthen nationwide preparedness and mitigation against acts of terrorism, natural disasters, or other emergencies.				
Program:	National Preparedness Integration and Coordination - Preparedness				

Performance Goal:	Protect the Nation's high risk and most valued critical infrastructure and key resources (CI/KR) by characterizing and prioritizing assets, modeling and planning protective actions, building partnerships, and issuing targeted infrastructure protection grants.				
Performance Measure:	Percent of high-priority critical infrastructure/key resources (CI/KR) sites at which a vulnerability assessment (VA) has been conducted				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	14%	15%	15%	Met
Description:	Percentage of the nation's high priority critical infrastructure of key resource sites for which assessments of vulnerability have been conducted in order to identify suitable protective measures needed to reduce vulnerability from acts of terrorism, and make corresponding resource allocation decisions.				
Explanation of FY 2006 Results:	Of the high priority CI/KR sites (as currently defined), over 15% have had a vulnerability assessment conducted within the past three years, using Risk Management Division (RMD) resources. The results of these assessments provide a key input into the protective action selection process as well as into sector and cross-sector risk analyses.				

Performance Measure:	Percent of Radiological Emergency Preparedness Program communities with a nuclear power plant that are fully capable of responding to an accident originating at the site.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	100%	100%	Met
Description:	Percentage of U.S. communities surrounding a nuclear power plant that are capable of responding to an accident originating at the site improving their ability to respond to and recover from terrorist attacks.				
Explanation of FY 2006 Results:	Meets the mission requirement to ensure the emergency preparedness capabilities of communities surrounding nuclear power plants.				

Performance Measure:	Percent of goals and objectives identified in Regional Transit Security Strategies addressed by grantee projects				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	53%	No data	Not Met
Description:	Percentage of goals and objectives identified in Regional Transit Security Strategies that are being addressed by grant recipients improving their ability to prevent, protect against, respond to, and recover from terrorist attacks. Measurement of progress toward identified goals and objectives compares actual implementation data against planned implementation deadlines reported in the strategies.				
Explanation of FY 2006 Results:	There is no data available to support this measure. The requirement that grantees meet goals and objectives identified in the Regional Transit Security Strategies was removed from the grant guidance sent out to applicants. This measure is unsupported in the absence of that requirement.				
Recommended Action:	Grants and Training is in the process of establishing new performance measures for FY 2007 that will assess grant recipients efforts to improve their ability to prevent, protect against, respond to, and recover from terrorist attacks.				

Performance Measure:	Percent of high-priority critical infrastructure for which a Buffer Zone Protection Plan (BZPP) has been implemented.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	18%	28%	58%	Met
Description:	Percentage of the Nation's high priority critical infrastructure for which a Buffer Zone Protection Plan (BZPP) has been implemented to reduce specific vulnerabilities by developing protective measures that extend from the critical infrastructure site to the surrounding community to deny terrorists an operational environment.				
Explanation of FY 2006 Results:	These "outside the fence" BZP Plans involve a collaborative effort among facility operators and community first responders to identify site vulnerabilities and then use this information to select and prioritize an effective set of protective actions. This structured approach aides in identifying personnel, equipment and training needs and it supports federal grant processing.				

Performance Measure:	Percent of identified high-priority critical infrastructure/key resources sites at which at least two suitable protective actions (PA) have been implemented.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	10%	14%	Met
Description:	Percentage of the Nation's critical infrastructure or resource sites, which have been designated high risk and highly valued, for which a minimum of two protective actions that are designed to reduce vulnerability from acts of terrorism have been implemented.				
Explanation of FY 2006 Results:	Protective actions, whether they involve equipment, personnel, training and/or procedures, directly lead to reduced vulnerability and therefore lower risk. Due to changing threat conditions, lessons-learned, technology advances and the need for balanced protection, assessment and implementation of protective actions must be an on-going effort.				
Objective/s Supported:	1.2 - Identify and assess the vulnerability of critical infrastructure and key assets. 3.2 - Reduce infrastructure vulnerability from acts of terrorism. 3.7 - Strengthen nationwide preparedness and mitigation against acts of terrorism, natural disasters, or other emergencies.				
Program:	Infrastructure Protection - Preparedness				

Performance Goal:	Improve the security of America's cyber and emergency preparedness telecommunications assets by working collaboratively with public, private, and international entities.				
Performance Measure:	Percent of targeted stakeholders who participate in or obtain cyber security products and services.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	50%	92%	Met
Description:	This measure assesses the impact of National Cyber Security Division (NCSA) activities targeting multiple stakeholders and NCSA's success in building effective partnerships with its stakeholders. As NCSA is able to reach a greater number of organizations and individuals, their awareness of the need to and the means of protecting cyber space increases and they act to implement NCSA recommendations to improve cyber space.				
Explanation of FY 2006 Results:	This measure counts the overall number of cyber security products and services NCSA produces and delivers, for the purpose of reducing vulnerabilities and minimizing the severity of cyber attacks. The stakeholders who receive these products and services include Federal agencies; state, local and tribal governments; non-governmental organizations such as industry and academia; and individual users. As NCSA is able to reach a greater number of organizations and individuals, their awareness of the need to and the means of protecting cyber space increases and they act to implement NCSA recommendations to improve cyber space.				

Performance Measure:	As stated in the Fiscal Year 2005 Annual Performance Plan: Government Emergency Telecommunications (GETS) call completion rate during periods of network congestion. Reworded to clarify measurement: Government Emergency Telecommunications Service (GETS) call completion rate during periods of network congestion.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	95.5%	90%	97.8	Met
Description:	Percentage of calls made using the GETS service during times of network congestion that are successfully completed. The percentage compares calls completed to calls attempted. This measure applies only to significant disasters and/or emergencies. This ensures effective continuity of government and continuity of operation functions.				
Explanation of FY 2006 Results:	In FY06, the National Communications System (NCS) met its annual outcome measure target with an average 97.8% Call Completion Rate during times of network congestion. To meet this target, the National Communications System (NCS) supervised and coordinated telecommunications restoration and recovery efforts between government and industry during Hurricanes Rita and Wilma. The 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 38,594. NCS increased total distributed Government Emergency Telecommunications Service (GETS) cards to 158,669.				
Objective/s Supported:	3.2 - Reduce infrastructure vulnerability from acts of terrorism.				
Program:	Cyber Security & Telecommunications - Preparedness				

Performance Goal:	Enhance the Nation's preparedness by increasing the capability of states, territories, and local jurisdictions to prevent, protect against, respond to, and recover from terrorism and all-hazard events through the provision of grants, first responder training, technical assistance, and exercises.				
Performance Measure:	Percent of jurisdictions demonstrating acceptable performance on applicable critical tasks in exercises using Grants and Training approved scenarios.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	40%	60%	35%	Not Met
Description:	Percentage of jurisdictions that demonstrate acceptable performance during exercises on critical tasks identified by the Homeland Security Exercise and Evaluation (HSEEP) strengthening nationwide preparedness and mitigation against acts of terrorism, natural disasters, and other emergencies. Measuring improvements in jurisdictions' performance on critical tasks over time reflects the impact of Grants and Training preparedness activities on jurisdictions' overall preparedness levels. To measure preparedness levels, critical task analyses 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 critical task is analyzed by comparing the results documented in the AAR to the expected outcome described in the EEG.				

Explanation of FY 2006 Results:	Fiscal year 2006 results for this measure are below the target. DHS reprioritized direct support exercise funding to support tactical interoperable communications plan (TICP) exercises and hurricane preparedness exercises. This reprioritization of exercise activities resulted in a smaller-than-expected number of direct support exercises, limiting the sample size for this measure. In addition, the continued promulgation of HSEEP resulted in jurisdictions exercising more challenging scenarios with more rigorous evaluation criteria, producing results that did not meet the target.
Recommended Action:	The National Exercise Program (NEP) expects to fund direct support exercises for State and local jurisdictions at typical levels in FY 2007, increasing the sample size of exercises for this measure. In addition, the NEP is planning to release new HSEEP EEGs in FY 2007, leading to improved understanding and evaluation of exercise performance. As a result, DHS anticipates that critical task performance results will improve next year.

Performance Measure:	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.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	35%	90%	61.8	Not Met
Description:	Percentage of state and local homeland security agency grant recipients who report measurable progress toward the goals and objectives identified in individual State Homeland Security Strategies thus strengthening nationwide preparedness and mitigation against acts of terrorism, natural disasters, or other emergencies. Demonstrating progress towards identified goals and objectives illustrates improvements in the abilities of State and local homeland security grant recipients to prevent, protect against, respond to, and recover from terrorist attacks. Measurement of progress towards identified goals and objectives is based on project implementation data as reported by grant recipients in Biannual Strategy Implementation Reports (BSIRs).				
Explanation of FY 2006 Results:	61.8% for State HS grants: The average progress score is 3.09 out of 5.00 (3.09/5.00=61.8%) -This number represents a sub-set of FY 2006 state monitoring reports that have been fully approved through FY 2006 Q4. The number represents the average progress score of the goals contained within the state homeland security strategies. Progress was measured on a scale of 0-5 with the following criteria: 0 = No effort or system underway nor recognition of the need; 1 = Recognition of the need but no effort or resources to accomplish the output; 2 = Initial efforts and resources underway to achieve the output; 3 = Moderate progress towards accomplishing the output; 4 = Sustained efforts underway and output nearly fulfilled; 5 = Output achieved and resources devoted to sustain the effort.				
Recommended Action:	This is a new measure which was baselined in FY 2006. The target was set prior to the measure being baselined and methods of collecting data being established. Therefore, the result was an unrealistic target and results not being met. However, with new baseline data more realistic targets will be set and more feasible collection methods will be used to ensure better performance.				

Performance Measure:	Percent of participating urban area grant recipients reporting measurable progress made towards identified goals and objectives to prevent and respond to terrorist attacks.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	8%	90%	64.8	Not Met
Description:	Percentage of urban area grant recipients who report measurable progress toward the goals and objectives identified in individual Urban Area Homeland Security Strategies, thus strengthening preparedness and mitigation against acts of terrorism, natural disasters, or other emergencies. Demonstrating progress towards identified goals and objectives illustrates improvements in the abilities of urban area grant recipients to prevent, protect against, respond to, and recover from terrorist attacks. Measurement of progress towards identified goals and objectives is based on project implementation data as reported by grant recipients in Biannual Strategy Implementation Reports (BSIRs).				
Explanation of FY 2006 Results:	64.8% for UASI: The average progress score is 3.24 out of 5.00 (3.24/5.00=64.8%) - This number represents a sub-set of FY 2006 urban area monitoring reports that have been fully approved through FY 2006 Q4. The number represents the average progress score of the goals contained within the urban area homeland security strategies. Progress was measured on a scale of 0-5 with the following criteria: 0 = No effort or system underway nor recognition of the need; 1 = Recognition of the need but no effort or resources to accomplish the output; 2 = Initial efforts and resources underway to achieve the output; 3 = Moderate progress towards accomplishing the output; 4 = Sustained efforts underway and output nearly fulfilled; 5 = Output achieved and resources devoted to sustain the effort.				
Recommended Action:	This is a new measure which was baselined in FY 2006. The target was set prior to the measure being baselined and methods of collecting data being established. Therefore, the result was an unrealistic target and results not being met. However, with new baseline data more realistic targets will be set and more feasible collection methods will be used to ensure better performance.				

Performance Measure:	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.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	38.5%	38%	27%	Estimated - Not Met
Description:	Percentage of state and local homeland security professionals, who report improvements in knowledge, skills, and abilities (KSA) after the completion of training, strengthening first responder preparedness and mitigation against acts of terrorism, natural disasters, and other emergencies. Measuring these improvements indicates the impact of training services on the nation's preparedness level.				
Explanation of FY 2006 Results:	The Training Division offers fewer awareness courses than before (see above). Students in awareness level courses traditionally test lower on pre-tests and higher on post-tests than in performance level courses, which results in higher percentage gains in KSAs. Since the Training Division offers fewer awareness level courses and more performance level courses than it did prior to the advent of the decentralized initiative, test scores overall are reflecting lower gains in KSAs.				

Recommended Action:	The Training Division is revisiting the level 2 assessments administered for its courses and is also currently refining its measures and targets for FY 2007 to reflect policy and operational changes. Level 1 assessments are measures of how participants in a training program react to it. It attempts to answer questions regarding the participants' perceptions of the training. Level 2 assessments move beyond learner satisfaction and assess the extent students have advanced in knowledge, skills, or abilities. Measurement at this level is more difficult and laborious than level one. Methods range from formal to informal testing to team assessment and self-assessment. If possible, participants take the test or assessment before the training (pretest) and after training (post test) to determine the amount of learning that has occurred.
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Performance Measure:	Percentage of homeland security strategies that are compliant with DHS planning requirements at the submission date.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	50%	89.4%	Met
Description:	Percentage improvement in the thoroughness and completeness of homeland security strategies submitted by state and urban area jurisdictions to the Office of Grants and Training (G&T). The measure reflects the Technical Assistance Program's goal of strengthening and improving the homeland security strategy process, which will enhance the Nation's preparedness by increasing the capability of states, territories, and local jurisdictions to prevent, protect against, respond to, and recover from terrorism and all-hazard events. Data for this measure are derived from G&T's review board process through which updated homeland security strategies are reviewed and approved.				
Explanation of FY 2006 Results:	During FY 2006, 104 strategies were submitted for review. Based on G&T's established strategy review board process, 35 were approved without any changes required and 58 were conditionally approved based on minor changes required, therefore 93 of 104 (89.4%) were approved upon submission.				
Objective/s Supported:	3.7 - Strengthen nationwide preparedness and mitigation against acts of terrorism, natural disasters, or other emergencies.				
Program:	Grants, Training & Exercises - Preparedness				

Performance Goal:	Ensure a coordinated and unified approach to represent medical readiness among the United States health community by providing data-driven, scientifically based policy and advice to advocate public health needs.				
Performance Measure:	Percent of agencies providing timely bio-surveillance information to National Biosurveillance Integration System (NBIS).				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	15%	15%	Met
Description:	Percentage of agencies that provide information to NBIS, enabling capability assessment, strategic planning, and real time information needed by the Nation's medical personnel to provide aid in response to terrorist threats and incidents.				



Explanation of FY 2006 Results:	Foundation was laid for cooperation with the Department of Defense, Department of State, Department of Interior, Health and Human Services, Centers for Disease Control and the U.S. Department of Agriculture. A Memorandum of Understanding was developed to formalize information sharing and personnel support requirements.
Objective/s Supported:	3.7 - Strengthen nationwide preparedness and mitigation against acts of terrorism, natural disasters, or other emergencies.
Program:	Medical Coordination - Preparedness

Performance Goal:	Maximize the health and safety of the public and firefighting personnel against fire and fire-related hazards by providing assistance to fire departments and by training the Nation's fire responders and health care personnel to prevent, protect against, respond to, and recover from fire-related events.				
Performance Measure:	Percent reduction in the rate of loss of life from fire-related events.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	18%	4% See explanation	Estimated - Not Met
Description:	To reduce the percentage in the rate of loss of life from fire-related events using the baseline of 13.5 deaths per million population in the year 2000.				
Explanation of FY 2006 Results:	In FY 2000 the United States Fire Administration established a long-term, ten-year performance goal of 30% reduction in the rate of loss of life from fire-related events (3% reduction per year). Therefore, the target for FY 2006 was set at 18%. The information is collected by the National Center for Health Statistics which uses census data. Given the time it takes to collect and publish census data, USFA will be unable to calculate the FY 2006 actual until April 2009. Therefore, the 4% published in the FY 2006 field reflects the FY 2003 actual which is the most current data available. The target for FY 2003 was 9%. Given that the FY 2003 target was not met, it is estimated that the FY 2006 target of 18% will also not be met.				
Recommended Action:	Pending the availability of funding, the USFA will work to target its technical support and training programs so that at risk populations receive the resources they need to help reduce the loss of life from fire-related events.				

Performance Measure:	Ratio of on-scene fire incident injuries to total number of active firefighters				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	3.4%	3.4%	Met
Description:	Percentage of firefighters injured on the scene as compared with the total number of the Nation's firefighters. This measure assesses improvements in firefighter safety in jurisdictions receiving Assistance to Firefighters Grant (AFG) funds to maximize the health and safety of firefighting personnel against fire and fire-related hazards by providing assistance to fire departments and by training the Nation's fire department personnel to prevent, protect against, respond to, and recover from fire-related events. The ratio of firefighter injuries to active firefighters reflects the effectiveness of AFG funds in promoting firefighter safety through its support for firefighter training, wellness programs, and protective equipment.				
Explanation of FY 2006 Results:	Calculation Based upon USFA estimate of 1.1 million firefighters, FY 2004. Based on NFPA annual report reflecting 2004 data, next NFPA report will be released Q1 FY07				

Objective/s Supported:	3.7 - Strengthen nationwide preparedness and mitigation against acts of terrorism, natural disasters, or other emergencies.
Program:	Fire and Emergency Assistance - Preparedness

Performance Goal:	Achieve sustained fisheries regulation compliance on our Nation's Oceans.				
Performance Measure:	Percent of fishermen complying with federal regulations.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	96.3%	96.4%	97%	96.6%	Not Met
Description:	Percentage of U.S. Coast Guard boardings of domestic fishing vessels without significant violations of Federal regulations being found (those that result in significant damage or impact to the fisheries resource, provide significant monetary advantage to the violator, or have high regional or national interest), divided by the total number of USCG domestic fishing vessel boardings. The measure is an observed compliance rate, as boardings are not random; vessels deemed a higher likelihood of being in violation receive a higher boarding priority. Boardings and violations are documented by USCG Report of Boarding Forms. The Marine Inspection and Law Enforcement Database maintains this data. The Magnuson-Stevens Fishery Conservation and Management Act specifically task the Coast Guard with enforcing fisheries regulations. Observed Compliance rate documents the effectiveness of at-sea enforcement to advance conservation and management of living marine resources and their environment.				
Explanation of FY 2006 Results:	Concerted enforcement efforts ensured compliance rate was exceptionally close to the aggressive FY 2006 target. Lower observed compliance rates primarily in the Atlantic are responsible for an overall rate below 97%. Three-fourths of all significant violations are attributed to three fisheries: over 50% of all significant violations occurred in the Atlantic sea scallop and Northeast groundfish fisheries, with the remaining 25% occurring in the Gulf of Mexico/South Atlantic shrimp fishery. Complex, ever-changing fisheries regulations in the Northeast, particularly when combined with days at sea restrictions, produced strong incentives to violate the regulations, which contributed to a steady number of violations. Several years of poor economic conditions in the shrimp fisheries, and effects of the 2005 hurricane season, create a strong incentive for fishers to disregard regulations. For the second year in a row, total CG fisheries boardings topped 6000.				
Recommended Action:	The Coast Guard will continue to adapt to trends in violations and allocate additional resources to those fisheries that experience the highest incidence of illegal use. This provides a deterrent to illegal fishing, and should lead to an increase in compliance with federal regulations.				
Objective/s Supported:	1.1 - Gather, fuse, and analyze all terrorism and threat related intelligence. 1.4 - Develop a Common Operating Picture for domestic situational awareness, including air, land, and sea. 3.6 - Protect the marine environment and living marine resources.				
Program:	Living Marine Resources (LMR) - United States Coast Guard				

Performance Goal:	Reduce homeland security risk in the maritime domain.				
Performance Measure:	Ports, Waterways, and Coastal Security Risk Index reduction to that terror related Maritime Risk the Coast Guard is able to impact				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	3.4%	14%	18%	Met
Description:	<p>This is a risk-based outcome measure that involves the scoring (by maritime security representatives) of 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, Coast Guard 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 Coast Guard’s ability to control) and the reduction in total risk the Coast Guard estimates that it has affected. Note: in the FY 2006 Plan printing the complete measure statement was not shown through clerical error but is correctly stated in this report.</p>				
Explanation of FY 2006 Results:	<p>In FY 2006, the Coast Guard met its goal of reducing, by at least 14%, the risk due to terrorism in the maritime domain that it is able to impact. Examples of new or enhanced initiatives aimed at improved maritime risk reduction include: a comprehensive update to Neptune Shield (the Combating Maritime Terrorism (CMT) field operational order); verification of 78% of the uninspected vessel fleet for security compliance; operational testing of explosive screening technology for ferries; enhancements to the Maritime Law Enforcement Academy facility and curriculum; promulgation of Maritime Sentinel (a strategic campaign plan for CMT); creation of the National Maritime Recovery Symposium; and the implementation of the Maritime Security Risk Analysis Model, a tool that allows local and regional assessment of infrastructure-focused security risk. FY 2006 also marked the Coast Guard’s assumption of duties associated with air intercept support for defense of the National Capital Region.</p>				
Objective/s Supported:	<ul style="list-style-type: none"> <li>1.1 - Gather, fuse, and analyze all terrorism and threat related intelligence.</li> <li>1.4 - Develop a Common Operating Picture for domestic situational awareness, including air, land, and sea.</li> <li>2.1 - Secure our borders against terrorists, means of terrorism, illegal drugs and violations of trade and immigration laws.</li> <li>2.5 - Strengthen the security of the Nations transportation systems.</li> <li>3.1 - Protect the public from acts of terrorism and other illegal activities.</li> <li>4.1 - Reduce the loss of life and property by strengthening response readiness.</li> <li>4.2 - Provide scalable and robust all-hazard response capability.</li> </ul>				
Program:	Ports Waterways and Coastal Security (PWCS) - United States Coast Guard				

Performance Goal:	Protect our nation's leaders and other protectees.				
Performance Measure:	Percentage of Instances Protectees Arrive and Depart Safely.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	100%	100%	100%	100%	Met
Description:	The percentage of travel stops where our nation's leaders and other protectees arrive and depart safely. The security of protectees is the ultimate priority of the Secret Service; therefore, all necessary resources are utilized before and during a protective assignment in order to provide the highest-quality protection the Secret Service demands for all protectees. The performance target is always 100%. Anything under 100% is unacceptable.				
Explanation of FY 2006 Results:	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 4,400 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.				
Objective/s Supported:	3.4 - Secure the physical safety of the President, Vice President, visiting world leaders and other protectees.				
Program:	Domestic Protectees (DP) - United States Secret Service				

Performance Goal:	Protect visiting world leaders.				
Performance Measure:	Percentage of Instances Protectees Arrive and Depart Safely - Foreign Dignitaries.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	100%	100%	100%	100%	Met
Description:	The percentage of travel stops where visiting world leader protectees safely arrive and depart. The security of protectees is the ultimate priority of the Secret Service; therefore, all necessary resources are utilized before and during a protective assignment in order to provide the highest-quality protection the Secret Service demands for all protectees. The performance target is always 100%. Anything under 100% is unacceptable.				
Explanation of FY 2006 Results:	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 1,875 travel stops during FY 2006. Travel stops are a count of cities or other definable subdivisions visited by a protectee, which 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.				
Objective/s Supported:	3.4 - Secure the physical safety of the President, Vice President, visiting world leaders and other protectees.				
Program:	Foreign Protectees and Foreign Missions (FP/FM) - United States Secret Service				

Performance Goal:	Reduce threats posed by global terrorists and other adversaries.				
Performance Measure:	Number of Protective Intelligence Cases Completed.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	3,992	4,614	4,000	4,164	Met
Description:	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.				
Explanation of FY 2006 Results:	The Protective Intelligence Program evaluated protective-related intelligence on groups, subjects and activities that pose threats to protected individuals, facilities or events. Through their efforts, the Protective Intelligence Program investigated all potential threats helping to ensure the security of protectees, facilities and events under its protection.				
Objective/s Supported:	3.4 - Secure the physical safety of the President, Vice President, visiting world leaders and other protectees.				
Program:	Protective Intelligence (PI) - United States Secret Service				

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.				
Performance Measure:	Counterfeit Passed per Million Dollars of Genuine U.S. Currency.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	\$60	\$80	\$74	\$81	Not Met
Description:	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. This measure is an indicator of the proportion of counterfeit currency relative to the amount of genuine U.S. Currency in circulation, and reflects our efforts to reduce financial losses to the public attributable to counterfeit currency.				
Explanation of FY 2006 Results:	The Financial Investigations Program did not meet its goal of restricting counterfeit currency in circulation 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 the currency replicable by commercially-available off-the-shelf technology. The amount this year of \$81 per \$1 million of genuine currency represents less than one ten-thousandth of one percent of circulating genuine U.S. currency, and shows the commitment of the Secret Service to reduce the amount of counterfeit currency in circulation.				
Recommended Action:	The Financial Investigations Program is committed to reducing the amount of counterfeit currency passed on to the public. The Secret Service will continue to be active in the development and proliferation of counterfeit detection countermeasures to combat new methods of counterfeiting. The Secret Service is very proactive in educating our partners in the banking and financial crime community, as well as the public in general, both domestically and internationally, on counterfeiting trends, and will continue to disrupt counterfeiting activities through their criminal investigations and work toward the program's annual targets.				

Performance Measure:	Financial Crimes Loss Prevented (Billions).				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	\$1.7	\$1.8	\$1.5	\$1.23	Not Met
Description:	An estimate of the direct dollar loss to the public that was prevented due to Secret Service intervention or 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, and reflects our efforts to reduce financial losses to the public attributable to financial crimes.				
Explanation of FY 2006 Results:	The Financial Investigations Program did not meet its goal of preventing at least \$1.5 billion in losses attributable to financial crimes. Although the target for FY 2006 was not met, the Financial Investigations Program did prevent \$1.23 billion in losses, which was achieved through conducting criminal investigations, and leveraging the investigative partnerships found in both electronic and financial crime task forces, to intervene and disrupt criminal ventures. The actual amount of loss prevented can fluctuate due to a number of factors including the number of referrals by victims, the increasing complexity of financial crime cases and U.S. Attorney thresholds. The Financial Investigations Program is committed to reducing losses to the public that are attributable to financial crimes and identity theft.				
Recommended Action:	The Financial Investigations Program will continue to be proactive in their approach to disrupting financial crimes. The program understands the importance of building relationships with other law enforcement agencies, private industry and academia, and will continue to work with their partners to identify emerging domestic and international criminal enterprises to prevent losses attributable to financial crimes and achieve the program's annual targets.				
Objective/s Supported:	3.3 - Protect our Nations financial infrastructure against crimes, to include currency and financial payment systems.				
Program:	Financial Investigations (FI) - 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.				
Performance Measure:	Financial Crimes Loss Prevented.(Millions)				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	\$150	\$556.2	\$150	\$315.9	Met
Description:	An estimate of the direct dollar loss to the public that was prevented due to investigations by Secret Service Electronic Crimes Task Forces throughout the United States, which were established pursuant to the USA PATRIOT Act. 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. This measure reflects our efforts to reduce financial losses to the public attributable to electronic crimes.				
Explanation of FY 2006 Results:	The Infrastructure Investigations Program met its target of preventing at least \$150 million in losses attributable to electronic financial crimes. Through the use of its Electronic Crimes Task Forces, the Secret Service prevented \$315.9 million in losses, which was achieved through the successful proactive investigations of computer-related and telecommunications crimes. This led to the intervention or interruption of criminal ventures.				
Objective/s Supported:	3.3 - Protect our Nations financial infrastructure against crimes, to include currency and financial payment systems.				
Program:	Infrastructure Investigations - 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 2006 to achieve this goal is provided below.

Performance Goal:	Ensure the capability and readiness of all FEMA disaster response teams and logistics capabilities to respond quickly and effectively to provide assistance when and where needed.				
Performance Measure:	Average percent of response teams reported at operational status.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	50%	85%	85%	Met
Description:	The percentage of FEMA's response teams indicating they are ready to respond quickly and effectively to acts of terrorism, natural disasters, and other emergencies. This measure tracks the readiness of four types of teams: the 52 Disaster Medical Assistance Teams (DMATs) within the National Disaster Medical System (NDMS); the 28 task forces of Urban Search and Rescue (US&R); the five Mobile Emergency Response Support (MERS) detachments, and the two Federal Incident Response Support Teams (FIRSTs).				
Explanation of FY 2006 Results:	This performance measure was designed to measure the overall operational level of specialized Federal response teams providing assistance in terms of situation monitoring and coordination, as well as, providing direct medical aid to disaster victims. Federal response teams included in this measure are Urban Search & Rescue (US&R), National Disaster Medical System (NDMS) teams, Federal Initial Response Teams (FIRST), and Mobile Emergency Response Services (MERS) detachments. These entities provide support to State and local authorities in, and handle the myriad coordination, monitoring and rescue duties generated by particular disaster situations. In order to be truly effective in meeting the needs of communities and disaster victims, team operational level targets must be ambitious. An increased percentage of operational teams equates to more lives saved, reduced response time, and greater continuity of services and enhanced logistical capability.				



Performance Measure:	Average response time in hours for emergency response teams to arrive on scene.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	50	22	48	25	Met
Description:	The average number of hours elapsed for deployment of FEMA's response teams to the field in the event of natural disasters and other emergencies. These teams include the National Disaster Medical System (NDMS), the Urban Search and Rescue (US&R), Mobile Emergency Response Support System (MERS), and the Federal Initial Response Support Teams (FIRSTs). For life-saving and other emergency response efforts, the hours immediately following a disaster are the most critical, and these teams must respond quickly and effectively to provide assistance when and where needed.				
Explanation of FY 2006 Results:	The faster response time in FY05 is due to emergency response teams already positioned in the region (due to hurricane Katrina) when hurricane Rita made landfall.				

Performance Measure:	Average time in hours to provide essential logistical services to an impacted community of 50,000 or fewer.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	65	60	63.5	Not Met
Description:	The average response time in hours to provide essential logistical services to a community of 50,000 or less, in the event of a natural disaster or other emergency. Logistical services provided to communities include ice, water, meals ready to eat, and other commodities. Start time is measured from the driver pick up time and end time is measured as delivery to the destination.				
Explanation of FY 2006 Results:	This objective measures the length of time in hours it takes an impacted community of 50,000 or fewer to receive essential logistical services. This result was measured from the time a requisition for commodities is received until they arrive on scene. This performance measure is beneficial to FEMA's support of State and local governments, and ultimately disaster victims, by providing an established timeframe in which life-saving and life-sustaining commodities are provided to 50,000 disaster victims for a time period of 72 hours.				
Recommended Action:	The target was not met but performance improved in the last three quarters of the year. FEMA will conduct analysis of what can be done to improve response time and address procedures and practices to improve.				
Objective/s Supported:	4.1 - Reduce the loss of life and property by strengthening response readiness. 4.2 - Provide scalable and robust all-hazard response capability.				
Program:	Response - Federal Emergency Management Agency				

Performance Goal:	Save mariners in imminent danger on our Nation's oceans and waterways.				
Performance Measure:	Percent of mariners in imminent danger saved.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	86.8%	86.10%	86% lives saved	85.27%	Not Met
Description:	The percentage of mariners who were in imminent danger on our Nation's oceans and waterways, and whose lives were saved by the Coast Guard. The number of lives lost before and after the Coast Guard 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.				
Explanation of FY 2006 Results:	Search and Rescue performance results are slightly lower than the preceding three years but reflect the same general level of performance. This calculation excludes cases involving over 11 lives (30 cases with a total of 842 lives saved; 1 case with 20 lives lost). A review of the SAR data does not indicate a specific reason the goal was not achieved, but contributing factors include delays in fielding improved SAR capabilities and the uncontrollable variables that influence the number and outcome of SAR incidents (weather, location, incident severity, life saving devices on board, etc.). The Coast Guard also tracks 'Lives Unaccounted For' (LUF) data and will include it with "lives lost" data in the future. Parallel reporting will begin in FY07. Lives Unaccounted For are those persons known to be missing at the end of a SAR response, but no body has been recovered. The goal including LUF is not yet established.				
Recommended Action:	The SAR Program expects to meet its performance goal when improved capabilities such as Rescue 21, new medium response boat and SAROPS come on line in Fiscal Years 2007-2010.				
Objective/s Supported:	1.1 - Gather, fuse, and analyze all terrorism and threat related intelligence. 1.4 - Develop a Common Operating Picture for domestic situational awareness, including air, land, and sea. 4.3 - Provide search and rescue services to people and property in distress.				
Program:	Search and Rescue (SAR) - United States Coast Guard				

Performance Goal:	Eliminate oil spills and chemical discharge incidents.				
Performance Measure:	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 U.S. per 100 million short tons of chemical and oil products shipped in U.S. waters.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	22.1	18.5	19 or less	16.3	Estimated - Met
Description:	This measure evaluates how well the Coast Guard prevents discharges of chemicals or oil into U.S. navigable waters by comparing the current period to those of previous periods. A five-year average of current and four previous years' number of chemical spills, and oil spills greater than 100 gallons, discharged into U.S. navigable waters per 100 million short tons of chemicals and oil products shipped. A five-year average is used to dampen the impact of year-to-year variation and to ensure that trends are apparent. Only discharge incidents from maritime sources into U.S. waters are counted. Discharges onto land, into the air, or into enclosed spaces are excluded, as are discharges from non-maritime sources. Discharges from naval and other public vessels; fixed platforms and pipelines, and discharges from unspecified, unclassified, and unknown sources are also excluded. Data are collected from USCG Marine Information for Safety and Law Enforcement System.				

Explanation of FY 2006 Results:	The five-year average number of chemical spills and oil spills greater than 100 gallons declined to 16.3 per 100 million short tons shipped. This achievement represents a continuation in the overall downward trend of oil spills occurring since 1999, and can be attributed to many initiatives including a more thorough assessment of the skills of merchant mariners employed as members of a ship's engineering watch, as well as a more uniform enforcement policy for compliance with the International Safety Management Code that governs such routine ship operations as routine cargo transfers and ship fueling operations. Please note that data for the period that just ended is likely to change, and shipping volumes are a projection—actual shipping data for the period will not be available until the end of 2007.
Objective/s Supported:	<ul style="list-style-type: none"> <li>1.1 - Gather, fuse, and analyze all terrorism and threat related intelligence.</li> <li>1.4 - Develop a Common Operating Picture for domestic situational awareness, including air, land, and sea.</li> <li>3.6 - Protect the marine environment and living marine resources.</li> <li>4.1 - Reduce the loss of life and property by strengthening response readiness.</li> <li>4.2 - Provide scalable and robust all-hazard response capability.</li> <li>5.2 - Provide scalable and robust all-hazard recovery assistance.</li> </ul>
Program:	Marine Environmental Protection (MEP) - 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 2006 to achieve this goal is provided below.

Performance Goal:	Help individuals and communities affected by federally declared disasters return to normal function quickly and efficiently, while planning for catastrophic disaster recovery operations.				
Performance Measure:	Percent of customers satisfied with Public Recovery Assistance				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	89.2	Data Not Available	88%	89.2% see explanation	Estimated - Met
Description:	The percentage of communities affected by disaster or other emergency who indicate satisfaction with the Public Disaster Recovery Assistance provided by FEMA to help them return to normal and function quickly and efficiently. Following a Presidential Declaration, Public Assistance is provided through grants to state and local governments and certain private nonprofit organizations for debris removal, emergency protective measures, and repair or replacement of damaged infrastructure.				
Explanation of FY 2006 Results:	Quarterly actuals for the percent of customers satisfied are not available for fiscal year 2005 due to the extraordinary commitment of time and personnel required in response to Hurricanes Katrina, Rita and Wilma. In addition, the final results of the Public Assistance Program Evaluation and Customer Satisfaction Survey that is conducted for calendar year of 2006 will not be available until February 2007, and will be reported in the 2007 Performance and Accountability Report. Therefore, the 89.2 percent published in the fiscal year 2006 field reflects the fiscal year 2004 actual which is the most current data available. The fiscal year 2004 target was 87 percent. Given that the fiscal year 2004 target was met it is estimated that the fiscal year 2006 target of 88 percent will also be met. The Public Assistance Branch is currently working with contractors to develop a methodology that would allow for quarterly reporting on a real-time basis.				

Performance Measure:	Percent of customers satisfied with Individual Recovery Assistance				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	90.4%	93%	90%	91%	Met
Description:	The percentage of Americans affected by disaster or other emergency who indicate satisfaction with the Individual Disaster Recovery Assistance provided by FEMA to help them return to normal and function quickly and efficiently.				
Explanation of FY 2006 Results:	Current year results exceeded the established baseline for the Individual Assistance Program. This well-established customer survey meets all industry standards, including neutrality and random selection. Responses gathered throughout the year from each FY06 declaration are representative of the multitude of disaster assistance customers who received monetary housing and/or other needs assistance through Individual Assistance Programs.				
Objective/s Supported:	5.1 - Strengthen nationwide recovery plans and capabilities. 5.2 - Provide scalable and robust all-hazard recovery assistance.				
Program:	Recovery - Federal Emergency Management Agency				

## 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.

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 2006 to achieve this goal is provided below.

Performance Goal:	Eliminate collisions, allisions and groundings by vessels on our Nation's oceans and waterways.				
Performance Measure:	Five-Year Average of Number of Collisions, Allisions, and Groundings (CAG)				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	1,876	1825	1,748 or fewer	1,765	Not Met
Description:	This measure evaluates how well the Coast Guard Waterways Management Programs and 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. A five-year average is used to dampen the impact of year-to-year variation and to ensure that trends are apparent. Data are collected from USCG Marine Information for Safety and Law Enforcement System.				
Explanation of FY 2006 Results	The five-year average number of distinct Collision, Allision and Grounding (CAG) events continues to decline for 2006. Some of this improvement is attributable to the Coast Guard's reorganization along service delivery processes at every level of the organization. In addition to Aids to Navigation, Waterways Management harmonizes other activities including vessel traffic services, bridge administration and Domestic Icebreaking. Effective management of these activities provides for a total systems approach that is inherently more encompassing, efficient and responsive. Continued improvement, including meeting future targets, is expected as our Waterways Management organization becomes increasingly efficient.				
Recommended Action:	Future improvements are expected to result from the Coast Guard's reorganization along service delivery processes at every level of the organization. In addition to Aids to Navigation, the Waterways Management program includes other activities such as vessel traffic services, bridge administration, icebreaking, etc. Management of all of these activities as one service delivery is expected to produce further reductions in CAGs.				
Objective/s Supported:	1.1 - Gather, fuse, and analyze all terrorism and threat related intelligence. 1.4 - Develop a Common Operating Picture for domestic situational awareness, including air, land, and sea. 6.4 - Facilitate the efficient movement of legitimate cargo and people.				
Program:	Aids to Navigation (AtoN) - United States Coast Guard				

Performance Goal:	Maintain operational channels for navigation, limiting channel closures to two days (during average winters) and eight days (during severe winters).				
Performance Measure:	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.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	4 closure days, average winter	0 Closures	2(avg), 8 (severe)	0 Closures	Met
Description:	This measure is an indicator of how well Coast Guard Domestic Ice Operations limit channel closures of critical waterways due to ice. Nine Great Lakes waterways have been identified as critical to icebreaking based on historical ice conditions, volume of ship traffic and potential for flooding—with the St. Mary's River identified as the reference point. The annual total number of days that these critical waterways are forced to close during the winter is measured at this point. 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 calculated using the method outlined in the Maximum Freezing Degree-Days as a Winter Severity Index for the Great Lakes, 1897-1977, by Raymond A. Assel.				
Explanation of FY 2006 Results:	The Coast Guard's domestic icebreaking mission ensures efficient and reliable waterways availability. This is done by maintaining open waterways, monitoring weather patterns, and consulting with industry stakeholders when channels are at risk for disruptions due to ice. Icebreakers directly assist commercial vessels transiting ice bound waters, perform track maintenance in ice-laden channels and assist the U.S. Army Corps of Engineering in relieving flood conditions resulting from ice on domestic waters. As a result of our effective management, there were no closures of critical waterways recorded in FY 2006 due to ice.				
Objective/s Supported:	1.1 - Gather, fuse, and analyze all terrorism and threat related intelligence. 1.4 - Develop a Common Operating Picture for domestic situational awareness, including air, land, and sea. 6.4 - Facilitate the efficient movement of legitimate cargo and people.				
Program:	Ice Operations - United States Coast Guard				



Performance Goal:	Provide immigration benefit services in a timely, consistent, and accurate manner.				
Performance Measure:	Actual cycle time to process form I-485 (Application to Register for Permanent Residence or to Adjust Status).				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	13.9	6 months or less	5.93 months	Met
Description:	<p>The amount of time it takes to provide a decision regarding an I-485, Application to Adjust Status. This is the form used to adjust the permanent legal status of an immigrant, and is one of our highest volume application types. On a monthly basis, performance data on applications received, completed and pending is collected through the 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 (e.g. if 100 cases are pending and case receipts were 20, 30, 15, 25, and 10 over the past 5 months, then cycle time is 5 months). Applications for which no visa number is available are considered pending, but not part of the backlog. Cases are also removed from the backlog calculation if a Request For Evidence is pending for the regulatory period with the applicant, the applicant has requested a later appearance date, or the required name check is pending with the FBI.</p>				
Explanation of FY 2006 Results:	<p>For the past two years, USCIS has implemented new initiatives to streamline processes and increase efficiency while maintaining security. As part of these efforts, USCIS has reallocated staff to align resources with workload; redistributed workloads to offices with excess capacity; piloted new processes to find more efficient methods of operations; updated policies and procedures to eliminate duplicative efforts; and initiated systems sweeps to replace inefficient manual queries and increase productivity, while at the same time bolstering process integrity. Forms I-485, Application for Adjustment of Status, and N-400, Application for Naturalization, cycle times represented the greatest challenges for USCIS, since these forms take the longest to complete. Despite the challenges presented, we achieved cycles times below six months for both the I-485 and N-400.</p>				

Performance Measure:	Actual cycle time to process form I-129 (Petition for Nonimmigrant Worker).				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	1.5	2 months or less	2 months	Met
Description:	<p>The amount of time it takes for U.S. Citizenship and Immigration Services to provide a decision regarding an I-129, Petition for Nonimmigrant Worker, that an employer has used to petition for an alien to come to the U.S. temporarily as a nonimmigrant worker. To provide immigration benefit services in a timely manner, on a monthly basis the 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 (e.g. if 100 cases are pending and case receipts were 20, 30, 15, 25, and 10 over the past 5 months, then cycle time is 5 months).</p>				
Explanation of FY 2006 Results:	<p>For the past two years, USCIS has implemented new initiatives to streamline processes and increase efficiency while maintaining security. As part of these efforts, USCIS has reallocated staff to align resources with workload; redistributed workloads to offices with excess capacity; piloted new processes to find more efficient methods of operations; updated policies and procedures to eliminate duplicative efforts; and initiated systems sweeps to replace inefficient manual queries and increase productivity, while at the same time bolstering process integrity.</p>				

Performance Measure:	Actual cycle time to process form N-400 (Application for Naturalization).				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	10.9	6 months or less	5.58 months	Met
Description:	The amount of time it takes to make a decision regarding an N-400, Application for Naturalization. On a monthly basis USCIS collects performance data on applications received, completed and pending. 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 (e.g. if 100 cases are pending and case receipts were 20, 30, 15, 25, and 10 over the past 5 months, then cycle time is 5 months). Cases are removed from the backlog calculation if the applicant has failed the English/Civics requirement and is waiting the statutory period between testing attempts, is awaiting a judicial oath ceremony for more than one month, the required name check is pending with the FBI, or if a Request For Evidence is pending for the regulatory period with the applicant.				
Explanation of FY 2006 Results:	For the past two years, USCIS has implemented new initiatives to streamline processes and increase efficiency while maintaining security. As part of these efforts, USCIS has reallocated staff to align resources with workload; redistributed workloads to offices with excess capacity; piloted new processes to find more efficient methods of operations; updated policies and procedures to eliminate duplicative efforts; and initiated systems sweeps to replace inefficient manual queries and increase productivity, while at the same time bolstering process integrity. Forms I-485, Application for Adjustment of Status, and N-400, Application for Naturalization, cycle times represented the greatest challenges for USCIS, since these forms take the longest to complete. Despite the challenges presented, we achieved cycles times below six months for both the I-485 and N-400.				

Performance Measure:	Number of refugee interviews conducted.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	58,937	up to 90,000	50,199	Met
Description:	The number of refugees seeking resettlement to the U.S. who have been interviewed by an immigration officer to get information about the applicant's claim for refugee status. A person is eligible for resettlement to the United States as a refugee pursuant to Immigration and Nationality Act §207 if he or she is of special humanitarian concern to the United States, is a refugee pursuant to Immigration and Nationality Act §101(a)(42), is not firmly resettled in a third country, and is otherwise admissible to the United States. Such person's spouse and unmarried children also derive refugee resettlement status. The Presidential Determination for FY2006 established a refugee admissions ceiling of 70,000. Approximately 90,000 applications must be adjudicated to meet this ceiling. USCIS uses the State Department's Worldwide Refugee Admissions Processing System to capture performance statistics and ensure that services are provided to refugees in a timely, consistent, and accurate manner.				
Explanation of FY 2006 Results:	The FY2006 results were accomplished in 141 overseas circuit rides to approximately 50 countries, 83 (58%) completed by newly trained Refugee Corps officers and 58 (42%) completed mostly by volunteers from the Asylum Corps. 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.				

Performance Measure:	Percent of asylum reform referrals (at local offices) completed within 60 days of receipt.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	79%	75%	88%	Met
Description:	<p>Asylum is a form of protection that allows refugees to remain in the U.S. Before asylum was reformed in 1995, applicants could obtain work authorization simply by filing for asylum, which made the system vulnerable to abuse. Since asylum reform, work authorization is obtained only if asylum is granted or no negative decision has been made within 180 days. If USCIS finds an applicant ineligible for asylum and the applicant is not in valid/legal status, USCIS refers the application to an immigration judge for final determination in the course of removal proceedings. Immigration courts require approximately 120 days to complete adjudications. To meet the 180 threshold for a decision, USCIS aims to refer 75% of ineligible applications to immigration courts within 60 days of filing. Recognizing that some cases should be exempt due to their complexity or the unavailability of staff at certain times, the program has exempted 25 percent of its workload from this requirement.</p>				
Explanation of FY 2006 Results:	<p>The Department saw a significant increase over the FY 2005 percentage achieving an 88% mark. Timely completion of asylum cases continues to be a priority for the Asylum Division for the following reasons: timely processing of applications deters individuals from applying for asylum solely to obtain employment authorization; the more timely genuine asylees receive work authorization, the better able they are to support themselves; asylees can more quickly reunite with their families waiting overseas in potentially dangerous situations; and possible security risks can be assessed and identified promptly. In FY 2006, all eight local asylum offices exceeded the 75% timeliness target for asylum case processing. Management has developed a system to schedule new filings for an interview quickly and track cases as they age.</p>				
Objective/s Supported:	<p>2.6 - Ensure the security and integrity of the immigration system.                  6.2 - Provide efficient and responsive immigration services that respect the dignity and value of individuals.                  6.3 - Support the United States humanitarian commitment with flexible and sound immigration and refugee programs.</p>				
Program:	Adjudication Services - United States Citizenship and Immigration Services				

Performance Goal:	Provide timely, consistent, and accurate information to our customers.				
Performance Measure:	Customer satisfaction rate with USCIS phone centers.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	75.5%	79%	83%	Met
Description:	<p>Percentage of people who obtained immigration services and benefits information from USCIS over the telephone, who have indicated satisfaction with the service they received. On a monthly basis, USCIS selects a random group of customers who have called the phone centers. A contracted company with expertise in conducting phone surveys then calls each customer and conducts a survey to rate their overall experience with the service received from USCIS' phone center. A standardized USCIS and General Accountability Office approved survey tool is used to collect customer responses. This satisfaction rate measures our performance in providing timely, consistent, and accurate information regarding immigration services and benefits to immigrants, U.S. employers, and the American public over the telephone.</p>				

Explanation of FY 2006 Results:	In FY2006, USCIS contracted with a secondary vendor to provide additional capacity within the contract call centers. Combined, our two Tier 1 vendors provided more than 475 Customer Service Representatives to answer customer inquiries. In addition, USCIS improved the scripting used by our contract operations creating a call flow that more accurately directed our telephone representatives to the correct responses, thereby improving the quality of the information provided. USCIS placed a strong emphasis on quality in FY2006 by further expanding the mystery shopper program whereby test calls were placed using specific scenarios to measure vendor performance. These initiatives all contributed to our FY2006 Customer Satisfaction Rating.
Objective/s Supported:	6.2 - Provide efficient and responsive immigration services that respect the dignity and value of individuals.
Program:	Information and Customer Service - United States Citizenship and Immigration Services

Performance Goal:	Enhance educational resources and promote opportunities to support immigrants' integration and participation in American civic culture.				
Performance Measure:	Significant Outreach per FTE				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	21	96	111	Met
Description:	The average number of significant outreach actions each year by each Community Liaison Officer to educate immigrants and encourage their participation in American civic culture. [Calculation: Number of significant outreach actions conducted each year divided by the number of full time equivalent (FTE) Community Liaison Officers (CLO)]. With this indicator, the Office is able to track the progress of the efficiency of our program, and estimate how much more outreach we could accomplish with the addition of new CLO FTEs. Since the Office of Citizenship is mandated to increase the understanding of citizenship, the Office must maintain a constant and continuous outreach agenda. The CLOs fulfill this mission by working in 19 locations across the country to establish and maintain relationships with community stakeholders in order to promote civic integration of immigrants. Significant outreach actions include conferences, ceremonies, meetings, presentations, and trainings.				
Explanation of FY 2006 Results:	We have seen a significant improvement in Outreach over the past two years. These results were achieved through guidance on outreach goals and priorities from headquarters Office of Citizenship to the field Community Liaison Officers (CLOs). The CLOs conducted significant outreach which supported the Office civic integration mandate as well as outreach support for all USCIS operational matters. Improved Outreach promotes opportunities to support immigrant integration and participation in American civic culture.				
Objective/s Supported:	6.1 - Increase understanding of naturalization, and its privileges and responsibilities.				
Program:	Citizenship - United States Citizenship and Immigration Services				

## Strategic Goal 7 – Organizational Excellence

**T**he 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 2006 to achieve this goal is provided below.

Performance Goal:	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.				
Performance Measure:	Percentage of recommendations made by the Office of Inspector General (OIG) that are accepted by the Department of Homeland Security.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	92%	93%	79%	91%	Met
Description:	The Inspector General Act of 1978, as amended, requires the 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.				
Explanation of FY 2006 Results:	During FY 2006, 91% of all Office of Inspector General recommendations were accepted, exceeding the performance target of 79%. The performance target will increase each year for the next several years — the targets for FY 2006 and FY 2007 are both an increase of 4% over the previous year’s target — but it will not approach 100%. The Office of Inspector General adds value to the Department by providing objective assessments of departmental programs and, where warranted, recommendations for improvement. It is expected that there are going to be areas of disagreement with departmental managers on some of its recommendations. To ensure departmental management acceptance, it would not be prudent to set the performance target at a level that could lead to a dilution of recommendations.				
Objective/s Supported:	7.3 - Continually improve our way of doing business.				
Program:	Audit, Inspections, and Investigations Program				

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.				
Performance Measure:	Percentage of major IT projects that are within 10% of cost/schedule/performance objectives.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	52%	81%	85%	78%	Not Met
Description:	This measure gauges the percent of major 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.				
Explanation of FY 2006 Results:	This information helps the Chief Information Officer track and identify problem areas that merit management attention. During FY 2006, 78% 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 performance is as expected.				
Recommended Action:	The Chief Information Officer is tracking quarterly the performance of major investments through the Periodic Reporting process. Those reporting more than 8% cost/schedule/performance variance must provide explanations for the performance on their quarterly Periodic Reports, along with actions designed to improve future performance. In addition, these investments must submit breach remediation plans that describe the plan to improve future performance. Selected reviews have been and will continue to be conducted on investment programs reporting more than 8% variances. Future year target levels for this measure will be set based on historical data and an estimate of realistic future performance.				
Objective/s Supported:	1.1 - Gather, fuse, and analyze all terrorism and threat related intelligence. 7.3 - Continually improve our way of doing business.				
Program:	Office of the Chief Information Officer				

Performance Goal:	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.				
Performance Measure:	Percent of qualifying reimbursements that are made with established standards of timeliness and proper authorization.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	100%	n/a	100%	n/a	Met
Description:	The Counterterrorism Fund provides a means to pay unbudgeted and unanticipated critical costs associated with providing support to counter, investigate, and prosecute terrorism, and to reestablish the operational capability of property damaged or destroyed as a result of any terrorist incident. This measure represents the percent of funds that were reimbursed to DHS components for unforeseen expenses that arose from the prevention of or response to terrorist attacks, including costs associated with providing support to counter, investigate, and pursue terrorism. The Fund may also 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 required, the actual will be "n/a;" in these cases, the target is met because all the mechanisms are in place to make 100% of qualifying reimbursements within established standards and in a timely manner.				



Explanation of FY 2006 Results:	There were no requests for reimbursements.
Objective/s Supported:	7.3 - Continually improve our way of doing business.
Program:	Counterterrorism Fund

Performance Goal:	Provide comprehensive leadership, management, oversight, and support to improve the efficiency and effectiveness of the Department.				
Performance Measure:	Percent of DHS strategic objectives with programs that meet their associated performance targets.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	84.9%	90	69%	Estimated - Not Met
Description:	This measure is defined as the total number of DHS strategic objectives with programs that meet their associated performance targets. Performance data is tabulated against the 33 strategic objectives of the DHS Strategic Plan. The Department Homeland Security (DHS) gauges its success in meeting its mission through implementation of the DHS Strategic Plan. The Strategic 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 DHS strategic goals and objectives and has specific performance measures. DHS demonstrates the value and outcomes of its services through the results of program performance metrics. The performance outcomes of DHS programs essentially tell how the Department is impacting citizens, stakeholders, and customers and meeting its mission.				
Explanation of FY 2006 Results:	During FY 2006, 69% of DHS programs met their associated performance targets. (This percentage includes those performance targets that programs have estimated as met, but does not include the performance measure for OSEM in the total.) This is evidence that while DHS is realizing its strategic goals and objectives and has made progress towards meeting its mission, additional improvement is still necessary.				
Recommended Action:	All programs that did not meet performance targets are required to submit a plan of recommended action that details how they will strengthen performance in the coming fiscal year. As programs (and Components) begin to meet targets, performance throughout the Department will improve.				
Objective/s Supported:	7.3 - Continually improve our way of doing business.				
Program:	Office of the Secretary and Executive Management				

Performance Goal:	Improve the effective and efficient delivery of business and management services throughout the Department.				
Performance Measure:	Percent of Under Secretary of Management programs that meet their associated performance targets.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	N/A	75%	0%	Not Met
Description:	Total number of programs (offices) within the Under Secretary of Management with measures that meet their associated performance targets.				



Explanation of FY 2006 Results:	Despite improvement over previous years, programs within the Under Secretary for Management missed performance targets for FY 2006. Programs will continue to set high goals for performance and strive to continue to improve.
Recommended Action:	All of the programs within the Under Secretary for Management are working to improve their performance. Further, some programs are refining their performance metrics. This measure is currently under review, as it does not accurately gauge improvement.
Objective/s Supported:	7.1 - Value our people. 7.3 - Continually improve our way of doing business.
Program:	Office of the Under Secretary for Management

Performance Goal:	Develop and maintain a Department-wide financial system that produces financial data that is timely, reliable, and useful to decision makers; strengthen accountability by ensuring that internal controls are in place across the Department and oversight reviews are conducted.				
Performance Measure:	Percentage decrease in the number of the previous year's reportable conditions that are considered to be material weaknesses at the consolidated audit level.				
Fiscal Year:	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Actual	FY 2006 Results
Target/Actual Indicator:	N/A	0%	25%	0%	Not Met
Description:	The Department measures the number of material weaknesses throughout its programs and works to bring this number down. OMB Circular A-123 considers a material weakness to be "a deficiency that the agency head determines to be significant enough to be reported outside the agency (i.e. included in the annual Integrity Act report to the President and the Congress). . . This designation requires a judgment by agency managers as to the relative risk and significance of deficiencies."				
Explanation of FY 2006 Results:	The number of material weaknesses identified in the FY 2006 financial statement audit equaled the number identified in the FY 2005 audit. The exact composition of the weaknesses changed and several components successfully ended their contribution to specific material weaknesses. The lack of reduction in material weaknesses does not indicate that progress did not occur. In FY 2006, management undertook a rigorous OMB Circular A-123 internal control self-assessment which uncovered new weaknesses in internal controls over financial reporting. The auditors also continued to drill down and establish a more precise baseline of material weaknesses. The implementation of a new corrective action plan process and a Department-wide tracking system in addition to continued OMB Circular A-123 work should lead to significant progress in FY 2007 and beyond.				
Recommended Action:	All components that exhibit material weaknesses are required to submit corrective action plans that detail how they will address these weaknesses in the coming fiscal year. As components correct weaknesses, particularly those identified by the more rigorous assessment implemented in FY 2006, financial management throughout the Department will improve.				
Objective/s Supported:	7.3 - Continually improve our way of doing business.				
Program:	Office of the Chief Financial Officer				

## Fiscal Year 2005 Estimated Actuals Updates

**S**ome programs reported estimated actuals in the fiscal year 2005 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 2005 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 2005 Performance and Accountability Report Completeness and Reliability Section.

### Goal 1 – Awareness

Reported results contained no estimates

### Goal 2 – Prevention

Program: Drug Interdiction (United States Coast Guard)

Measure: Removal rate for cocaine that is shipped via non-commercial maritime means.

- FY05 Estimate = Estimate (as of 9/30/05) 137.5 Metric Tons Seized
- FY05 Actual = 27.3% (Estimated Met, Actually Met)

Program: Marine Safety (United States Coast Guard)

Measure: Maritime Injury and Fatality Index.

- FY05 Estimate = 1,304
- FY05 Actual = 1,277 (Estimated Met, Actually Met)

Program: Detention and Removal (United States Immigration and Customs Enforcement)

Measure: 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).

- FY05 Estimate = 65.6%
- FY05 Actual = 109.69% (Estimated Not Met, Actually Met)

### Goal 3 – Protection

Program: Evaluation and National Assessment Program (State and Local Government Coordination and Preparedness) Under Departmental reorganization, this program was transferred to the Preparedness component under its Evaluation and National Assistance subprogram.

Measure: Percent of recommendations made by reviewing authorities (i.e. IG, OMB, GAO) that are implemented within 1 year.

- FY05 Estimate = 100%
- FY05 Actual = 100% (Estimated Met, Actually Met)

Program: Fire Act Program (State and Local Government Coordination and Preparedness) Under Departmental reorganization, this program was transferred to the Preparedness component under its Assistance to Firefighters subprogram.

Measure: Number of Firefighter injuries

- FY05 Estimate = 39,500
- FY05 Actual = 75,840 (Estimated Met, Actually Not Met)

Program: Fire Act Program (State and Local Government Coordination and Preparedness) Under Departmental reorganization, this program was transferred to the Preparedness component under its Assistance to Firefighters subprogram.

Measure: Number of Civilian Deaths from Fire

- FY05 Estimate = 3,400
- FY05 Actual = 3,675 (Estimated Not Met, Actually Not Met)

Program: Protection of Federal Assets (Federal Protective Service)

Measure: Percent annual increase in the Facility Security Index

- FY05 Estimate = 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 show to be 46.62 minutes.
- FY05 Actual = 92% (Estimated Met, Actually Met)

## Goal 4 – Response

Program: Response (Emergency Preparedness and Response) Under Departmental reorganization, this program was transferred to the FEMA component.

Measure: (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.

- FY05 Estimate As of Q3: = (A) 18% (B) 50% (C) N/A (D) 20
- FY05 Actual = (A) 27% (B) 50% (C) N/A (D) 22 (Estimated Met, Actually Met)

Note: Measure (C) did not have a target for FY05 and was therefore shown with a target of N/A. It was listed as a measure for future use. This composite measure (A) through (D) was disaggregated as of January 1, 2006 into single measures. Constituent elements of this measure now appear with subprogram under the main program they represent.

## Goal 5 – Recovery

Program: Recovery (Emergency Preparedness and Response) Under Departmental reorganization, this program was transferred to the FEMA component.

Measure: 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.

- FY05 Estimate as of Q3=\* (A) 93% (B) Data Not Available (C) TBD (D) N/A (E) N/A (F) 30%
- FY05 Actual = (A) 93% (B) Data not available (C) Baseline not completed; (D) N/A (E) N/A; (F) 30% (Estimated Met, Actually Met)

Note: Measures (D) and (E) did not have targets for FY05 and were therefore shown with a target of N/A. They were listed as measures for future use. Measures (C) 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, performance baseline figures for FEMA’s Recovery Program could not be established thereby being shown as “Baseline not completed”. It was listed as a measure for future use. This composite measure (A) through (F) was disaggregated as of January 1, 2006 into single measures. Constituent elements of this measure now appear with subprograms under the main program they represent.

## Goal 6 – Service

Reported results contained no estimates

## Goal 7 – Organizational Excellence

Reported results contained no estimates

## Program Evaluations

**T**he 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 effectiveness. The primary tool for this process is the Program Assessment Rating Tool (PART). This Office of Management and Budget sponsored process evaluates program in four areas; Purpose, Planning, Management, and Results/Accountability. Upon completion of the evaluations, programs are classified 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 2006 to address recommendations are shown below. Another round of evaluations was started in FY 2006, and will be completed for publication of the FY 2007 Performance and Accountability Report. PART summaries follow with their improvement plans, after which is information about Government Accountability Office and DHS Office of Inspector General reports.

### **Analysis and Operations (A&O): Homeland Security Operations Center (National Operations Center)**

<http://www.whitehouse.gov/omb/expectmore/summary.10003615.2005.html>

Rating: Adequate. This rating describes a program that needs to set more ambitious goals, achieve better results, improve accountability or strengthen its management practices.

The Department of Homeland Security has successfully established the Homeland Security Operations Center. A functional center is currently operating at the Department’s main headquarters. Thus far, the Operations Center has focused its resources on acquiring operating systems and personnel. The Operations Center has also done well to collaborate with Federal and non-Federal partners.

The Homeland Security Operations Center has yet to establish meaningful annual or long-term performance goals. As the Center continues to mature, management should focus on such goal in order to better evaluate its programs and activities.

**Improvement Plan:**

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
1) Developing meaningful annual and long-term performance goals	In progress	
2) To date, the Homeland Security Operations Center has relied on output measures to track performance. As the Center matures, program managers will develop outcome measures to improve performance.	In progress	

## CBP: Border Security Inspections and Trade Facilitation at Ports of Entry's Program

<http://www.whitehouse.gov/omb/expectmore/summary.10003600.2005.html>

Rating: Effective. This is the highest rating a program can achieve. Programs rated Effective set ambitious goals, achieve results, are well-managed and improve efficiency.

The program has a clear purpose, and helps to focus the agency's efforts to protect the American public from terrorists and terrorist acts along the border.

The program is a performance based program whose funding is tied to accomplishment of their goals.

The program collaborates with multiple other federal agencies including the Departments of Agriculture, Commerce, Food and Drug Administration, State, and Treasury.

### Improvement Plan:

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
1) Continuing to work with their program partners to achieve its annual performance goals.	Completed	CBP currently examines 34.7% of inbound rail and truck-containerized cargo and 5% of all inbound containerized vessel cargo. CBP screens information for all cargo containers arriving in the US, and scrutinizes all high-risk shipments. CSI now operates in 44 ports in 26 countries. CSI discussed sharing rapid analysis of cargo that may contain nuclear or radioactive material with Department of Energy and, in 2006, implemented an operational and emergency response to mitigate the threat.
2) Demonstrating improved efficiencies and cost effectiveness.	Completed	CBP continuing use of advance cargo and passenger information, and commercial and law enforcement databases to pre-screen, target, and identify potential terrorists and terrorist shipments efficiently and cost-effectively. CSI continues setting up ports in foreign countries efficiently. CSI is working with internal CBP and DHS organizations to obtain personnel, expertise and services it needs from experienced organizations to create the infrastructure and develop an operational port effectively.
3) Improving performance measures.	Completed	The BSITF program has to continue to develop and refine their performance measures and meet their annual targets. CBP's measures are fully linked and supportive of the Agency and Departmental Strategic Plans and support the FYHSP. The CSI program continues to be effective in achieving results. CSI has improved the automation of its data collection of port activity to achieve more timely and consistent performance measure reporting.

## FEMA: Emergency Preparedness and Response - Mitigation Program

<http://www.whitehouse.gov/omb/expectmore/summary.10003604.html>

Rating: Moderately Effective. In general, a program rated Moderately Effective has set ambitious goals and is well-managed. Moderately Effective programs likely need to improve their efficiency or address other problems in the programs' design or management in order to achieve better results.

The Mitigation programs use risk identification and assessment processes to target at-risk people and property. FEMA works with state and local governments on mitigation planning, and grant funds are targeted to projects that are consistent with these planning efforts.

Contract and grant obligations are monitored and reported quarterly. However, the program has been slow to award grant funds in the Pre-Disaster Mitigation program.

Flood insurance has worked well in the past, but needs to increase the number of policies and to reduce the number of properties with repetitive losses, that require a disproportionate share of payments. FEMA is increasing the number of policies by improving lender compliance, simplifying the program, and expanding marketing. A new pilot program will help to address repetitive loss properties.

### Improvement Plan:

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
Improve the National Flood Insurance Program premium income per \$100 dollars of combined operating expense and historical losses paid.	In progress	The Mitigation Division improved its performance on this goal from \$119.30 to \$121.60 by implementing a moderate rate increase of 4.1% while holding its expense ratio unchanged.

## Federal Law Enforcement Training Center:

Rating: Adequate. This rating describes a program that needs to set more ambitious goals, achieve better results, improve accountability or strengthen its management practices.

The program continues to address a specific need for training law enforcement personnel and has responded quickly to emerging training needs post-9/11 by quickly expanding the number of training classes needed to address rapid hiring goals that added thousands of new officers. However, partner organizations have little financial incentive to ensure that initial training projections are accurate.

In addition to the Federal Law Enforcement Training Center, several other Federal agencies maintain training facilities. The existence of duplicative training facilities is beyond the Center's control and was allowed by Congress, but more coordination across training programs is needed. Fortunately, new appropriations language has largely halted the proliferation of new facilities.

While the program has made good progress in defining improved annual and long-term performance measures, there is a lack of sufficient baseline data to determine how ambitious the performance targets are.

### Improvement Plan:

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
1) Continuing to develop and utilize the Federal Law Enforcement Training Accreditation Board in order to increase the number of programs accredited and re-accredited.	Action taken, but not completed	FLETC received FLETA Academy accreditation and is working toward program accreditation. FLETA conducted 3 FLETA Assessments, 2 accreditation manager courses and 3 assessor training courses, assisted in 4 Self-Assessments and expect 1 academy and program awarded accreditation for this period.
2) Improving coordination with other Federal law enforcement training facilities and with partner organizations by holding them more accountable for cost, schedule, and performance results.	Action taken, but not completed	FLETC has opened dialog with other training organizations and continues to conduct monthly Partner Organization meetings to promote communication and a forum to exchange information.
3) Considering a competitive sourcing study to ensure that all Federal Law Enforcement Training Center training, including the Border Patrol, is done in the most effective and cost-efficient manner.	Action taken, but not completed	To date, FLETC has completed one Competitive Sourcing Study, is planning to announce three additional competitions in FY06 and FY07, and has an approved green plan based on the FLETC's FAIR Inventory.



**ICE: Automation Modernization Program (ATLAS)**

<http://www.whitehouse.gov/omb/expectmore/summary.10003601.2005.html>

Rating: Results Not Demonstrated. A rating of Results Not Demonstrated (RND) indicates that a program has not been able to develop acceptable performance goals or collect data to determine whether it is performing.

The program has weak program and management structure and must dramatically improve its ability to manage its resources.

The program has developed some preliminary measures to mark its short-term progress.

ATLAS should expand its focus beyond short-term agency integration goals and develop a long-term strategy to help the agency share information with its law enforcement and immigration enforcement partners.

Improvement Plan:

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
Developing a spending plan for current resources.	Completed	The Atlas PMO has put processes in place to expedite Expenditure Plan preparation. An ICE Atlas Business Case was finalized 12/21/05 and provides the basis for documenting future baseline requirements. The FY 05 Expenditure Plan received Congressional approval on 6/22/06. ICE submitted the 2006 Plan on November 6, 2006. ICE is drafting the FY 08 Expenditure Plan in conjunction with BY Exhibit 300 formulation.
Developing a long-range strategic plan that helps ICE share information with its law enforcement and immigration enforcement partners	Action taken, but not completed	ICE is engaged in strategic planning to share information with enforcement partners. ICE is leading DHS Case Management and participating in the DHS Team 5 working group to develop architectures that share data among DHS, DOJ/FICMS, Sentinel and other partners. ICE is also executing the Atlas IMI project, planning the Consolidated Enforcement Environment (CEE) and planning Detention and Removal Modernization (DROM) to share ICE enforcement and investigative information with enforcement partners
Establishing a strong program office to monitor program's performance and use of appropriated resources.	Action taken, but not completed	By 9/05, the program named dedicated project managers to each Atlas project and assembled a fully staffed Contractor PMO. The program hired and is awaiting clearance for four Government employees for the program manager position and three project manager positions. The Atlas PMO completed a PMO Organizational Assessment on 4/12/06 and procured Primavera as the program's enterprise project management tool in May.

## Prep: Grants and Training Office - National Exercise Program

<http://www.whitehouse.gov/omb/expectmore/summary.10003606.2005.html>

Rating: Effective. This is the highest rating a program can achieve. Programs rated Effective set ambitious goals, achieve results, are well-managed and improve efficiency.

The National Exercise Program supports a robust, well-coordinated series of exercises at the national, state, and regional levels. The program is a key component of evaluating the performance of homeland security grant recipients.

However, the exercise schedule and reporting requirements have not been fully aligned to allow for a robust assessment of many state and local capabilities.

Implementation of standardized exercise procedures and reporting requirements have improved exercise quality. However, compliance with reporting requirements was less than 50% by exercise organizers in FY04 and FY05.

The National Exercise Program has improved coordination with other Federal agencies participating in homeland security exercises. However, more progress can be made to improve coordination with other Federal agency exercises. As of August 2005, the Program had not submitted the National Exercise Plan that would address such coordination issues.

### Improvement Plan:

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
Define scope of National Exercise Program needed to support other SLGCP performance measures.	Complete	The NEP supports other agencies' performance measures through evaluation and improvement planning systems that collect structured data that can be used to identify trends in preparedness related to the Office of Grants and Training's mission area. Specifically: 1) The NEP's Corrective Action Program (CAP) System tracks post-exercise improvement actions that address After Action Report recommendations. The action items tracked by this system inform other G&T elements' assessments of equipment, training, and planning needs. The CAP System is currently in beta-testing, but when fully functional will house a large set of data that collectively can be analyzed to identify prominent equipment, training, and planning gaps, as well as progress toward resolution of those gaps. 2) The NEP has made a priority of developing and deploying new Homeland Security Exercise and Evaluation Program (HSEEP) exercise evaluation guides (EEGs) which will standardize task and capability-based exercise evaluation. The new HSEEP EEGs are partially completed and undergoing field-testing in select exercises. When the new HSEEP EEGs are fully deployed, they will allow for standardized evaluation of task, capability, and activity performance throughout the nation, enabling cross-cutting assessments of preparedness that will support a variety of SLGCP performance measures.
SLGCP budget links NEP program funding to goals.	Complete	The NEP developed a program plan which linked existing and planned activities to long-term goals and objectives. This program plan was used as the basis for SLGCP's FY08 budget request for the NEP.
Submit the National Exercise Plan for interagency review	Complete	National Exercise and Evaluation Program Plan submitted to Homeland Security Council's (HSC) Plans, Training, Exercises, and Evaluations Policy Coordination Committee. Feedback received and incorporated. HSC policy statement is currently being collaboratively developed that links activities in the NEEP Plan to an over-arching DHS/DOD/Interagency exercise program.
Increase state and local compliance with HSEEP doctrine and reporting requirements.	Complete	Between FY05 and FY06 the estimated percentage of NEP State and Local Direct Support exercises in compliance with HSEEP doctrine and reporting requirements rose from 56% to 70%. The estimated rise in HSEEP Compliance for all exercises (direct support and grant-funded exercises) rose from 33% to 46% over the same period. The NEP has also introduced the HSEEP Toolkit, an integrated suite of online automated tools meant to facilitate planning, conduct, and evaluation of HSEEP-compliant exercises. The HSEEP Toolkit an audience of over 5,000 registered users.

**Prep: Grants and Training Office - State and Local Training Program**

<http://www.whitehouse.gov/omb/expectmore/summary.10003607.2005.html>

Rating: Adequate. This rating describes a program that needs to set more ambitious goals, achieve better results, improve accountability or strengthen its management practices.

The Program has developed training that addresses critical skills and abilities needed by state and local responders to prepare, prevent, and respond to a terrorist incident. It still lacks independent evaluations, or a methodology for comparing the performance of different training programs and providers.

Coordination and consistency with other Federal preparedness training programs is limited. Little progress has been made on developing a broader interagency preparedness training framework required under Homeland Security Presidential Directive Eight.

Funding and available training slots are not well targeted. Funding for several major training centers is based on past appropriation earmarks, not competition or effectiveness. Training slots are allocated by state population, not by risk of terrorist attacks.

Improvement Plan:

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
Seek language encouraging greater flexibility and/or competition among training partners.	Action taken, but not completed	No progress has been made on this measure in terms of new legislative language. However, the Training Division continues to fund the Competitive Training Grants Program (CTGP), which allows flexibility and competition among its training partners. In 2006, 207 applications were submitted in response to a solicitation for programs to address issue areas relating to the eight national priorities identified in the National Goal. Fifty-one applicants were invited to submit full proposals.
Incorporate state-based risk methodology into allocation of training slots among SLGCP training partners.	Completed	States and territories receiving Homeland Security grant funds are required to develop state strategies, which identify their funding priorities. Also, grant recipients have been required to develop multi-year exercise plans. In order to incorporate state-based risk methodology, the Training and Exercise Division began requiring that states and territories begin development of multi-year training and exercise plans.
In coordination with DHS components and Federal agency partners, complete development of the National Training Program required under HSPD-8.	Action taken, but not completed	HSPD-8 requires the development of a National Goal and measurable target capabilities. The two products required by HSPD-8 have been assigned to and are under development by the Office of Policy, Initiatives, and Analysis (OPIA). They are not yet approved by the Homeland Security Council (HSC). Once approved, the target capabilities will drive the development of Exercise Evaluation Guidelines (EEGs) and the reconfiguration of Training Division courses that align to the capabilities.
As DHS manages several major training programs aimed at Federal, state, and local personnel, it should pursue cross-cutting, comparative evaluations of their strengths and weaknesses. Consolidation of several training activities under the new "Preparedness Directorate" is a first step in this effort.	Action taken, but not completed	The Training Division has begun the effort of convening the four DHS agencies whose training courses are closely related: the Federal Law Enforcement Training Center (FLETC); FEMA's Emergency Management Institute (EMI), and the National Fire Academy (NFA). To date, DHS has not undertaken any cross-cutting, comparative evaluations of the strengths and weaknesses of each of its training programs which target state and local first responders.

<p>Develop standardized assessments of homeland security knowledge, skills and abilities that can be used to more systematically compare the impact of training, both among trainees and training providers.</p>	<p>Action taken, but not completed</p>	<p>The Training Division has implemented a series of actions to ensure its training is of the highest quality. Using Kirkpatrick's four levels of evaluation as a model, the Training Division requires that all training partners administer standardized Level 1 and Level 2 evaluations to their students. The Level 2 evaluation tests student comprehension of the course material and is administered before participation and after the conclusion of the class.</p>
<p>Develop an FY06 spending plan and FY07 Budget request that more closely link resource allocation to the program's long-term goals.</p>	<p>Completed</p>	<p>In 2006 the Training and Exercises Divisions were merged. At that time, a Business Office was created. One of the major responsibilities of the Training and Exercise Division Business Office was to link resource allocations more closely to program goals. All requests for 2006 funds were accompanied by a justification explaining how the funded project is tied to the accomplishment of goals from the Division's strategic plan</p>

**Prep: Grant and Training Office - Technical Assistance Program**

<http://www.whitehouse.gov/omb/expectmore/summary.10003605.2005.html>

Rating: Adequate. This rating describes a program that needs to set more ambitious goals, achieve better results, improve accountability or strengthen its management practices.

The program provides a wide range of expertise to state and local grantees to assist in developing and implementing homeland security programs. However, in responding to shifting priorities, the program has until recently lacked clear long-term goals for improving grantees' planning and management capabilities.

The program has broadened its range of services provided to keep pace with the range of capabilities eligible for DHS grant funding. Some of these services are similar to technical assistance services provided by other Federal agencies, and do not reflect a clear "core competency" of the Office of Grants and Training.

The program's funding level is not transparent, with actual expenditures exceeding estimates in the President's Budget and Congressional appropriations. Relation of actual funding levels to goals and results is unclear.

Improvement Plan:

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
Clarify the underlying problems that the program is trying to solve.	Completed	The Technical Assistance Program has ensured that all TA services developed and delivered to State and local homeland security personnel have been mapped to address specific mission areas, priorities, and capabilities outlined in the National Preparedness Goal. This mapping ensures that the Technical Assistance Program develops services that address priority needs and build capabilities in the most critical areas.
Develop an FY06 spending plan and FY07 Budget that more clearly identify program resources, with linkages to performance.	Completed	The Technical Assistance Program has developed a spending plan for FY06 and FY07 that articulates the number of deliveries and performance objectives for each technical assistance service. These plans also map each service to all aspects of the National Preparedness Goal. The spending plans are used to educate Technical Assistance budget requests. The Technical Assistance Program is rapidly moving towards competing or re-competing all contract vehicles by FY08.
Develop long-term performance measures focused on outcomes.	Completed	With assistance from OMB, the Technical Assistance Program developed two new long-term measures focused on outcomes and has begun to collect relevant data to fulfill the reporting requirement.

## Prep: National Communications Service (NCS) - National Security and Emergency Preparedness Communications

<http://www.whitehouse.gov/omb/expectmore/summary.10003617.2005.html>

Rating: Moderately Effective. In general, a program rated Moderately Effective has set ambitious goals and is well-managed. Moderately Effective programs likely need to improve their efficiency or address other problems in the programs' design or management in order to achieve better results.

The National Communications Service is fulfilling its mission to ensure required telecommunications to respond to and recover from national disasters or incidents, including war. Call completion rates for the Government Emergency Telecommunications Service during national events such as 9/11, 2002 Winter Olympic Games in Salt Lake City, and the 2004 Florida Hurricanes exceeded 90%.

The Government Emergency Telecommunications Service has 100,000 users/subscribers and is available in all 50 states. This service allows government officials to place priority calls ahead of the general public during an incident.

### Improvement Plan:

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
Working with program partners to improve accountability, cost-effectiveness, and performance.	Action taken, but not completed	The Continuity Communications Working Group has initiated work on a Continuity Communications Enterprise Architecture. This effort will help to support Minimum Essential Functions of the Federal Government under all circumstances, including crisis, emergency, attack, recovery, and reconstitution. We are working with Continuity Communications Working Group (CCWG) partners to design and develop NS/EP architecture requirements in coordination with the Office of Science and Technology Policy (OSTP).

**Prep: National Cyber Security Division (NCSD) - Infrastructure Protection**

<http://www.whitehouse.gov/omb/expectmore/summary.10003614.2005.html>

Rating: Results Not Demonstrated. A rating of Results Not Demonstrated (RND) indicates that a program has not been able to develop acceptable performance goals or collect data to determine whether it is performing.

The National Cyber Security Division has not established meaningful annual or long-term performance measures. For example, no baseline for performance has been set. This lack of information limits the ability of the program to evaluate itself.

The National Cyber Security Division needs to ensure independent evaluations are regularly conducted. While internal periodic reviews have begun, regular external reviews should be implemented. The Division recognizes that reviews help ensure programs are aligned with its mission.

Improvement Plan:

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
Developing baselines and targets for performance measures.	Action taken, but not completed	New measures are being developed that accurately represent the broad range of programs and projects implemented within NCSD. Based on guidance from the DHS Program Analysis and Evaluation (PA&E) office, the measures are being refined. NCSD implemented these proposed measures for internal collection and reporting at the end of the third quarter this year, and will evaluate internal performance under these measures in the third quarter of this Fiscal Year.
Establish external processes to evaluate effectiveness of cyber security programs.	Action taken, but not completed	To achieve its program goals in an effective and efficient manner, NCSD revised its strategic plan (Implementation Plan) goals and objectives to also include quarterly milestones for fiscal years 2006 through 2011. Each internal program is reviewed with the proposed quarterly performance metrics and the target base and/or intended beneficiaries identified.



## S&T: Emerging Homeland Security Threat Detection

<http://www.whitehouse.gov/omb/expectmore/summary.10003611.2005.html>

Rating: Moderately Effective. In general, a program rated Moderately Effective has set ambitious goals and is well-managed. Moderately Effective programs likely need to improve their efficiency or address other problems in the programs' design or management in order to achieve better results.

Program needs an ambitious agenda to continue forward at the pace required in the face of the rapidly emerging technological threats in the world.

The program now has strong performance measures, but some targets are under development. The program has not yet undertaken an independent evaluation of sufficient scope and quality.

### Improvement Plan:

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
Working with Congress to consolidate the Emerging Threats and Rapid Prototyping portfolios into one office to increase efficiencies and better leverage assets of each.	In progress	
Conducting an independent, external audit to determine if competitive sourcing and long term performance goals are on track and results can be validated	In progress	
Develop additional annual and long-term performance metrics and targets that focus on outcomes that accurately measure the program.	Action taken, but not completed	A long-term measure has been developed; this measure is an improvement and is more focused on meeting the program's long-term goal. The program continues to work to develop additional annual and efficiency measures.
Conduct independent assessments of sufficient scope and quality.	Action taken, but not completed	Regular independent reviews are scheduled to begin in FY 2006 and will be focused on supporting program improvements as well as evaluating effectiveness and relevance to counter emerging terrorism threats. Additionally, this will ensure the efforts are not duplicative with other research within the Department or with other federal agencies. The reviews have not been conducted, but are planned. They may not be conducted in 4th quarter, but may be for first quarter FY 2007.

**S&T: Rapid Prototyping of Countermeasures**

<http://www.whitehouse.gov/omb/expectmore/summary.10003612.2005.html>

Rating: Moderately Effective. In general, a program rated Moderately Effective has set ambitious goals and is well-managed. Moderately Effective programs likely need to improve their efficiency or address other problems in the programs' design or management in order to achieve better results.

This program needs to have outside evaluations conducted to support program improvements and evaluate effectiveness.

More progress needs to be demonstrated toward achievement of long term goals. This is a new program and has a limited track record.

Improvement Plan:

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
Develop additional annual and long-term performance metrics and targets that focus on outcomes that accurately measure the program.	Action taken, but not completed	An output measure has been developed; this measure is an improvement and is more focused on meeting the program's long-term goal. The program continues to work to develop a long-term and efficiency measures.
Conduct independent assessments of sufficient scope and quality.	Action taken, but not completed	Regular independent reviews are scheduled to begin in FY 2006 and will be focused on supporting program improvements as well as evaluating effectiveness and relevance to counter emerging terrorism threats. Additionally, this will ensure the efforts are not duplicative with other research within the Department or with other federal agencies. The reviews have not been conducted, but are planned. They may not be conducted in 4th quarter, but may be for first quarter FY 2007.
Working to develop sensible, ambitious targets on the number of technologies brought to market.	In progress	
Conducting independent evaluations to benchmark progress and ensure competitive sourcing practices are followed	In progress	
Proposing in the budget and working with Congress to consolidate the Emerging Threats and Rapid Prototyping portfolios into one office to increase efficiencies and better leverage assets of each.	In progress	

## S & T: Science and Technology Dir: Univ./H.S. Fellowship

<http://www.whitehouse.gov/omb/expectmore/summary.10003610.2005.html>

Rating: Moderately Effective. In general, a program rated Moderately Effective has set ambitious goals and is well-managed. Moderately Effective programs likely need to improve their efficiency or address other problems in the programs' design or management in order to achieve better results.

Need to conduct independent evaluations to assess the scope and quality of the program and its effectiveness.

The program needs to establish better linkages between investment in scholarship and fellowship recipients and results that benefit the U.S. government.

### Improvement Plan:

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
Develop additional annual and long-term performance metrics and targets that focus on outcomes that accurately measure the program.	Action taken, but not completed	Additional measures have been developed including long-term, efficiency, and annual. These measures are an improvement and are more focused on meeting the program's long-term goal.
Conduct independent assessments of sufficient scope and quality.	Action taken, but not completed	The program was evaluated by an independent board of visitors/review panel in 9/05. The Center for Risk and Economic Analysis of Terrorism Events was evaluated by an independent review panel in 4/06. The reviews provided valuable information in the areas of mission relevance,
Conduct independent assessments of sufficient scope and quality.	Action taken, but not completed	technical competency, and management effectiveness. An external review panel will assess the program annually, with the next review scheduled for Fall 2006. Planned for Fall 2006 are reviews for two additional centers.
Conducting an independent, external audit to determine if long-term performance and efficiency goals are on track and results can be validated.	In progress	
Decrease funding for this program until a better linkage between the investment in scholarship and fellowship recipients and the results derived to the nation from that investment can be established.	In progress	

**TSA: Air Cargo Security Programs**

<http://www.whitehouse.gov/omb/expectmore/summary.10003602.2005.html>

Rating: Results Not Demonstrated. A rating of Results Not Demonstrated (RND) indicates that a program has not been able to develop acceptable performance goals or collect data to determine whether it is performing.

TSA should improve methods to evaluate risks and vulnerability in the air transportation system as it relates to air cargo.

The program has recently developed interim long-term and annual measures to measure program effectiveness. However, due to data limitations, the program is unable to measure the risk reduced as a result of implementing program objectives.

Work remains to close security loopholes, including improving screening efforts and refining procedures to approve indirect air carriers. The program has developed a strategic plan and is deploying a new security screening system, both of which are steps in the right direction.

Improvement Plan:

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
Deploy the Freight Assessment System to improve gap analyses and risk/vulnerability assessments. Complete the pilot by the middle of calendar year in 2006 and full deployment beginning in FY 2007 and completing in FY 2008.	Action taken, but not completed	A Proof of Concept is near completion. An operational pilot will follow in early FY 2007. A new program baseline will be established based on the results of the Proof of Concept including an updated timeline.
Develop a long-term outcome oriented performance measure that measures risk reduced as a result of implementing program objectives. This goal will be included in the FY 2008 Budget.	Action taken, but not completed	TSA has developed and calculated a surrogate risk reduction long-term outcome oriented performance measure for this program. The FY 2005 baseline was completed and ambitious targets have been set.
By the end of FY 2006, TSA will develop and deploy a pay-for-performance system to hold federal managers accountable for cost, schedule, and performance results.	Action taken, but not completed	The development of the pay-for-performance system is being phased in by TSA. By the end of FY 2006 all of the approximately 45,000 Transportation Security Officers (TSO) and TSO managers will be under the system. By the end of FY 2007, the remaining TSA organizations (roughly 6,000 staff) will be under the system.

## TSA: Aviation Regulation and Enforcement

<http://www.whitehouse.gov/omb/expectmore/summary.10003603.2005.html>

Rating: Results Not Demonstrated. A rating of Results Not Demonstrated (RND) indicates that a program has not been able to develop acceptable performance goals or collect data to determine whether it is performing.

The program was recently created; therefore, it is unclear if the program is organized in such a way that it promotes maximum efficiency and effectiveness.

The program is in the process of developing long-term outcome measures that focus on reduction of risk as a result of implementing program objectives.

The program has developed procedures to measure and achieve efficiencies and cost effectiveness.

### Improvement Plan:

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
By FY 2007, develop a plan to systematically review current regulations to ensure consistency among all regulations in accomplishing program goals.	Action taken, but not completed	TSA has established a working group comprised of legal counsel, operational and support program representatives to develop input into the Unified Agenda which is published semi-annually in the Federal Register to provide the public with a snapshot of future rulemakings. This working group also provides input into the Regulatory Plan that is published once a year and contains the most important significant regulatory actions each agency reasonably expects to publish.
By FY 2007, develop baselines and ambitious targets for the annual measures.	Action taken, but not completed	Eight of the ten measures in this program now have reported baseline numbers. Upon receiving actuals for FY 2006, TSA will evaluate the trend data and create targets for outlying years if targets have not already been established. Firm dates for actions to close this recommendation will be provided by the end of FY 2006.
Develop a long-term outcome oriented performance measure that measures risk reduced as a result of implementing program objectives. This goal will be included in the FY 2008 Budget.	Action taken, but not completed	There are currently two surrogate risk reduction measures that are considered long-term outcome oriented performance measures. TSA is reviewing these measures to determine how to best calculate them. Upon completion of this review, baselines will be derived and targets will be set. The goal is to complete this action by the end of FY 2006.
By the end of FY 2006, TSA will develop and deploy a pay-for-performance system to hold federal managers accountable for cost, schedule, and performance results.	Action taken, but not completed	The development of the pay-for-performance system is being phased in by TSA. By the end of FY 2006 all of the approximately 45,000 Transportation Security Officers (TSO) and TSO managers will be under the system. By the end of FY 2007, the remaining TSA organizations (roughly 6,000 staff) will be under the system.

## TSA: Flight Crew Training

<http://www.whitehouse.gov/omb/expectmore/summary.10003616.2005.html>

Rating: Results Not Demonstrated. A rating of Results Not Demonstrated (RND) indicates that a program has not been able to develop acceptable performance goals or collect data to determine whether it is performing.

Due to data limitations, the program is unable to measure the risk reduced as a result of implementing program objectives. Therefore, it has developed an interim long-term measure to help gather data necessary to develop outcome goals.

The program has developed an efficiency goal: increase the percentage of training programs within 10 percent of cost, schedule and performance.

The Crew Member Self Defense Training program is unique in its advanced self-defense, threat detection, and appropriate use of force techniques. While the Federal Flight Deck Officer program is the only program that deputizes airline crew members as federal law enforcement officers, it is similar in mission to the Federal Air Marshals program.

### Improvement Plan:

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
By FY 2007, develop a plan to systematically review current regulations to ensure consistency among all regulations in accomplishing program goals.	Action taken, but not completed	TSA performed a comprehensive assessment of this program. The review has been completed and changes have been implemented that will make the training more accessible to crew members, while fulfilling its statutory requirements. The prototyping of this new approach occurred in June 2006, and the full national roll-out is scheduled to begin in July 2006. The results of this revised approach will be provided prior to the end of FY 2006.
By FY 2007, develop an independent evaluation process to ensure programs are comprehensively reviewed on a regular basis.	Action taken, but not completed	TSA performed a comprehensive assessment of this program. The review has been completed and changes have been implemented that will make the training more accessible to crew members, while fulfilling its statutory requirements. The prototyping of this new approach occurred in June 2006, and the full national roll-out is scheduled to begin in July 2006. The results of this revised approach will be provided prior to the end of FY 2006.
Develop a long-term outcome oriented performance measure that measures risk reduced as a result of implementing program objectives. This goal will be included in the FY 2008 Budget.	Action taken, but not completed	TSA has developed and calculated a surrogate risk reduction long-term outcome oriented performance measure for this program. The program will set ambitious targets when the collection of baseline is completed for FY 2006. It is TSA's goal to complete this action by the end of FY 2006.
By FY 2007, develop baselines and ambitious targets for the annual measures.	Action taken, but not completed	Two of the five measures for this program have baseline numbers. It is our goal to have baseline numbers for all measures by the end of FY 2006. Upon receiving actuals for FY 2006, TSA will trend the data and create targets for outlying years.
By the end of FY 2006, TSA will develop and deploy a pay-for-performance system to hold federal managers accountable for cost, schedule, and performance results.	Action taken, but not completed	The development of the pay-for-performance system is being phased in by TSA. By the end of FY 2006 all of the approximately 45,000 Transportation Security Officers (TSO) and TSO managers will be under the system. By the end of FY 2007, the remaining TSA organizations (roughly 6,000 staff) will be under the system.

**USCG: Marine Safety**

<http://www.whitehouse.gov/omb/expectmore/summary.10003609.2005.html>

Rating: Adequate. This rating describes a program that needs to set more ambitious goals, achieve better results, improve accountability or strengthen its management practices.

This program conducts ad hoc analyses to investigate deviation from annual performance targets, but does not have an institutionalized set of annual performance metrics to track improvement in the program's outcomes.

Although this program has demonstrated long-term improvements in its performance, because its long-term goals were often set above the prior year's level of achievement, it is difficult to tell whether managers are truly challenged to improve program performance.

This program exercises sound financial management techniques that hold program partners accountable for program performance.

## Improvement Plan:

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
The Coast Guard needs to develop a plan for regular, independent assessments of its programs' performance. While the Coast Guard has a schedule to conduct one-time evaluations of all of its programs, it still needs to develop a more routine and regular process for evaluation.	Action taken, but not completed	Coast Guard initiated a PART-inspired and aligned series of program evaluations with the Center for Naval Analyses. As a result, several evaluations have already concluded, others are ongoing, and more are planned. The Marine Safety Program is slated for an independent evaluation by the Center for Naval Analysis in Fiscal Year 2008.
Harmonize recreational boating regulations. The Coast Guard should work with its recreational boating partners (Department of the Interior, Army Corps of Engineers) to harmonize overlapping federal regulatory structures and standards.	Action taken, but not completed	The Coast Guard is presently assessing the Marine Safety PART recommendations, and will incorporate OMB's recommendation into program-level work plans.
Normalize existing performance measures. The Coast Guard should work to normalize its existing performance measures to reflect the effect of a growing boating population on the program's performance. The result of this revision would be to present program performance as a ratio of deaths and injuries to the boating population.	Action taken, but not completed	The Coast Guard will be conducting an annual review of its mission-program performance measurement framework in February and March. During this audit, the measurement improvement recommendation provided by OMB will be taken for action.
Create annual measure scorecard. The Coast Guard should work to institutionalize supporting operational measures that help program managers better understand factors that contribute to annual program performance achievement. Concurrent with these measures, the Coast Guard should set ambitious performance targets to encourage performance improvements. These measures should be promulgated to all program managers on a routine basis.	Action taken, but not completed	The Coast Guard will be conducting an annual review of its mission-program performance measurement framework in February and March. During this audit, the measurement improvement recommendation provided by OMB will be taken for action.



## USCIS: Immigration Services

<http://www.whitehouse.gov/omb/expectmore/summary.10000018.2005.html>

Rating: Moderately Effective. In general, a program rated Moderately Effective has set ambitious goals and is well-managed. Moderately Effective programs likely need to improve their efficiency or address other problems in the programs' design or management in order to achieve better results.

While this program has decreased the processing time of some immigration applications more work is warranted. In particular, this program needs to more effectively leverage technology to collect, process, and adjudicate immigration applications in a more accurate and timely manner.

The program has also demonstrated improvements toward providing the right benefit to the right person. A Fraud Detection and National Security office was established to identify immigration benefit fraud, enhance security checks, and develop a joint anti-fraud strategy in partnership with other Federal agencies.

The program has made progress in decreasing the backlog of immigration applications. At the end of 2005, the backlog had fallen by over 2.5 million cases (from a high of 3.8 million in January 2004) and had achieved a six-month or better cycle time in 9 of the 16 applications under the backlog elimination effort.

### Improvement Plan:

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
Modernize IT systems to better respond to fluctuating workload.	Action taken, but not completed	The IT Transformation Program has been subsumed by the Business Transformation Program. Please see update to Improvement Plan 2 "Modernize IT systems to better respond to fluctuating workload"
Reengineer business processes to modernize processes and systems to more efficiently adjudicate applications and effectively provide immigration benefits.	Action taken, but not completed	Implementing Business Transformation Plan to change how USCIS interacts with customers; receives/processes/exchanges information and data; ensures the security and integrity of the immigration system; and improves efficiency. Plan addresses: upgrading IT infrastructure; transition from paper to electronic case management; integrating information; improving data integrity/security. In Planning Phase, which includes business process re-engineering, pilot development in FY07.

## USSS: Secret Service Domestic Protectees

[www.whitehouse.gov/omb/expectmore/summary.10003608.2005.html](http://www.whitehouse.gov/omb/expectmore/summary.10003608.2005.html)

Rating: Effective. This is the highest rating a program can achieve. Programs rated Effective set ambitious goals, achieve results, are well-managed and improve efficiency.

The Domestic Protectees program met all annual performance targets. In FY 2002, 2003, 2004 and 2005, protectees arrived and departed safely in 100% of instances, persons inside the White House and Vice President's residence received incident-free protection 100% of the time, and 100% of National Special Security Events that commenced were successfully completed.

This program routinely works in partnership with numerous Federal, military, state, local, and international agencies to ensure the protection of domestic protectees. Particularly when protectees travel, advance teams network with partnering agencies in the jurisdictions that protectees visit. Duplication and overlapping of effort are avoided by the design of the program.

Resources are effectively managed and allocated in response to such factors as protectee travel destinations, National Special Security Event venues, variance in national threat levels, and/or crisis management scenarios.

### Improvement Plan:

We are taking the following actions to improve the performance of the program:	Action Taken	Comments
Reviewing efficiency index to incorporate where possible variables (such as threat level) that may impact workload and other efficiency factors.	Completed	The Secret Service determined that it is not feasible to incorporate a threat level variable, into the current efficiency index. This variable is difficult to develop as data is qualitative or classified. The process to collect appropriate and timely inputs, and a system to capture data for this measure to be relevant, would be elusive. The current efficiency measure incorporates the threat environment as it considers prior year data, and is used in planning and executing protective activities.
Performing environmental scanning to ensure that protective doctrine and the program's countermeasures keep pace with emerging threats.	Action taken, but not completed	LE Sensitive.
Revising how program evaluations are conducted to ensure that efficiency is incorporated as a key component of evaluations.	Action taken, but not completed	The Secret Service's Management and Organization Division has expanded its Strategic Planning Management Branch to include a formal program evaluation function. Once fully staffed (target date: 2007), the new branch (Planning and Evaluation Branch) will have analysts dedicated to program evaluation. The branch will incorporate program efficiency from the inception of the branch's program evaluation function.

## Office of Inspector General Evaluations

The DHS Office of the Inspector General's "Major Management Challenges Facing The Department of Homeland Security" is included within this reports Section IV "Other Accompanying Information". It summarizes the most significant overall findings of the Office of the Inspector General's audits and investigations, which are footnoted in his report. Their complete list of FY 2006 reports can be viewed at:

[http://www.dhs.gov/xoig/rpts/mgmt/editorial\\_0334.shtm](http://www.dhs.gov/xoig/rpts/mgmt/editorial_0334.shtm)

## Government Accountability Office Evaluations

The Government Accountability Office (GAO) lists 111 reports on DHS issued in FY 2006. Given the large number of reports its issues, GAO produce its "high risk" series to focus attention on the most critical issues. This series identifies from all the audits and evaluations those federal programs and operations that in some cases are high risk due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement. Increasingly, GAO also has identified high-risk areas that are in need of broad-based transformations to address major economy, efficiency, or effectiveness challenges. The GAO high risk items relative to DHS are identified in the Management's Discussion and Analysis section of the draft PAR. A list of FY 2006 reports completed by GAO can be viewed at: <http://www.gao.gov/docsearch/agency.php>



# Financial Information

Part III



## Message from the Chief Financial Officer

November 15, 2006



Our Fiscal Year 2006 *Performance and Accountability Report (PAR)* presents financial and program performance information for the Department of Homeland Security (DHS). The PAR is our principal publication and report to the President, the Congress, and the American people on our accountability and control of funds entrusted to us, and the Department's efforts to improve program performance.

Homeland Security is still a relatively new organization, still working through transformation issues, and still growing. Fiscal Year (FY) 2006 was our third full year of operations as a Department. Most cabinet level departments needed several years under the Chief Financial Officer's Act to obtain an independent audit opinion on their financial statements, and at DHS we are working hard to achieve that standard. The Department of Homeland Security Financial Accountability Act further requires that beginning in FY 2006, the Secretary include in this report the results of an audit of internal controls over financial reporting, similar to private sector reporting requirements under the Sarbanes-Oxley Act.

The results of the financial statement audit and the internal controls audit show many challenges we must overcome before we can provide assurances over our financial management and obtain a clean audit opinion. Many of these weaknesses existed for years prior to DHS' creation, and will take time and effort to fix. We are dedicated to making the improvements necessary to achieve these goals.

Fiscal Year 2006 was about building the framework through which our problems can be fixed and our accountability improved. We have made substantial progress at identifying the underlying root causes of the problems cited by the auditors and in developing corrective action plans. We have developed systems and processes by which organizations will be held accountable for making improvements, and we have worked with the Inspector General on a series of performance audits that will monitor our efforts to make improvements. Our comprehensive strategy and plan for improving financial management, the *Internal Controls Over Financial Reporting Playbook*, will be published in early FY 2007.

U.S. Immigration and Customs Enforcement is a great example of how, through senior leadership support, sound action plans, and a motivated team, improvements can be realized. U.S. Customs and Border Protection and the Federal Law Enforcement Training Center also deserve recognition for their work this past year on financial reporting. Finally, the leadership of the U.S. Coast Guard has clearly expressed their commitment to realizing financial management improvement.

Financial Management has come a long way at DHS since its inception. I am inspired by the extraordinary efforts of the Department's dedicated staff, and working as a team we will move financial management at DHS beyond that of an agency in transition.

Sincerely,

A handwritten signature in black ink that reads "David Norquist". The signature is written in a cursive, flowing style.

David Norquist  
Chief Financial Officer


Office of Inspector General

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

# Homeland Security

November 15, 2006

MEMORANDUM FOR: The Honorable Michael Chertoff  
Secretary

FROM:   
Richard L. Skinner  
Inspector General

SUBJECT: Independent Auditors' Report on DHS' FY 2006 Balance Sheet and  
Statement of Custodial Activity

The attached report presents the results of the Department of Homeland Security's (the Department) financial statement audits for fiscal year FY 2006 and FY 2005. These audits were required by the *Chief Financial Officers Act of 1990*. This report is incorporated into the *Department's FY 2006 Performance and Accountability Report*. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audits.

The Department made some progress at the component level to improve financial reporting during FY 2006, although overall it still has much work remaining. For the third year, KPMG was unable to provide an opinion on the Department's balance sheet, and the number of material weaknesses remains at 10.

### Summary

KPMG was unable to express an opinion on the Department's balance sheets as of September 30, 2006 and 2005, and on the statement of custodial activity for the year ended September 30, 2005. The disclaimer of opinion was due primarily to financial reporting problems at 4 bureaus and at the Department level. The FY 2006 auditors' report discusses 10 material weaknesses, 2 other reportable conditions in internal control, and instances of non-compliance with 8 laws and regulations, as follows:

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

- A. Financial Management and Oversight (Entity-level Controls)
- B. Financial Reporting
- C. Financial Systems Security
- D. Fund Balance with Treasury
- E. Property, Plant, and Equipment



- F. Operating Materials and Supplies
- G. Legal and Other Liabilities
- H. Actuarial Liabilities
- I. Budgetary Accounting
- J. Intragovernmental 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 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. Chief Financial Officers Act of 1990
- S. Government Performance and Results Act of 1993
- T. Debt Collection Improvement Act of 1996

**Moving DHS' Financial Management Forward**

In FY 2006, the department gained new leadership in financial management with the confirmation of a Presidentially appointed Chief Financial Officer. However, the department continued to struggle with financial reporting during FY 2006. The Office of Financial Management, Coast Guard, TSA, Federal Emergency Management Agency (FEMA), Immigration and Customs Enforcement (ICE), and Management Directorate were unable to provide sufficient evidence to support account balances presented in the financial statements and collectively contributed to the auditors' inability to render an opinion. Further, DHS management and three of its major components (Coast Guard, TSA, and ICE) were unable to represent that the financial statements were presented in conformity with U.S. generally accepted accounting principles.

At the component level, there was some progress in addressing internal control weaknesses. ICE achieved the greatest improvement in financial management and reporting in FY 2006. Contributing to 10 material weaknesses in FY 2005, it contributed to only 1 material weakness in FY 2006. ICE mitigated the severity of its material weaknesses through corrective actions implemented during 2006, but has not completely resolved its internal control problems.

The Coast Guard began FY 2006 with a focus on financial management oversight, financial reporting, and fund balance with Treasury. Unfortunately, progress has been slow and the auditors again 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 officials within the Coast Guard acknowledged to the auditors that longstanding procedural, control, personnel, and cultural issues existed and had impeded their progress in installing an effective financial management structure. The auditors reported that the Coast Guard's



among other issues, made it difficult for the Coast Guard's Chief Financial Officer to institutionalize internal controls related to financial management and reporting.

Many of the Department's difficulties in financial management and reporting can be attributed to the original stand-up of a large, new, and complex Executive branch agency without adequate organizational expertise in financial management and accounting. The Department has recently committed to obtaining additional human resources and other critical infrastructure necessary to develop reliable financial processes, policies, procedures, and internal controls that will enable management to represent that financial statements are complete and accurate. These resources and infrastructure are critical to the implementation of effective corrective actions and to establishing an effective financial management oversight function. During the past year, the Department and its components began an extensive effort to develop meaningful corrective action plans to address specific material internal control weaknesses. We are evaluating the effectiveness of those corrective action plans in a separate series of audits.

\* \* \* \* \*

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

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

We request that a corrective action plan that demonstrates 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 David M. Zavada, Assistant Inspector General for Audits, at 202-254-4100.

Attachment



**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## INDEPENDENT AUDITORS' REPORT

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

We were engaged to audit the accompanying balance sheets of the U.S. Department of Homeland Security (DHS) as of September 30, 2006 and 2005, and the related statement of custodial activity for the year ended September 30, 2006 (referred to herein as “financial statements”). In connection with our fiscal year 2006 audit, we also considered DHS’ internal controls over financial reporting, Required Supplemental Stewardship Information (RSSI), and performance measures, and 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 statements of net cost, changes in net position, budgetary resources, and financing, for the years ended September 30, 2006 and 2005, or the statement of custodial activity for the year ended September 30, 2005 (referred to herein as “other fiscal year 2006 and 2005 financial statements”).

### Summary

As discussed in our report on the financial statements, the scope of our work was not sufficient to express an opinion on the DHS balance sheets as of September 30, 2006 and 2005, or the related statement of custodial activity for the year ended September 30, 2006.

Our report indicates that DHS adopted new reporting requirements for earmarked funds in fiscal year 2006.

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

- A. Financial Management and Oversight (Entity-level Controls)
- B. Financial Reporting
- C. Financial Systems Security
- D. Fund Balance with Treasury
- E. Property, Plant, and Equipment
- F. Operating Materials and Supplies
- G. Legal and Other Liabilities
- H. Actuarial Liabilities
- I. Budgetary Accounting
- J. Intragovernmental Balances
- K. Environmental Liabilities
- L. Custodial Revenue and Drawback

We consider reportable conditions A through J, above, to be material weaknesses.

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

- M. *Federal Managers’ Financial Integrity Act of 1982*



- N. *Federal Financial Management Improvement Act of 1996 (FFMIA)*
- O. *Federal Information Security Management 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. *Chief Financial Officers Act of 1990*
- S. *Government Performance and Results Act of 1993*
- T. *Debt Collection Improvement Act of 1996*

We also reported other matters related to compliance with the *Anti-deficiency Act* at Transportation Security Administration (TSA) and the Federal Law Enforcement Training Center (FLETC).

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 DHS balance sheets as of September 30, 2006 and 2005, and the related statement of custodial activity for the year ended September 30, 2006, and had we been engaged to audit the other fiscal year 2006 and 2005 financial statements.

The following sections discuss the reasons why we are unable to express an opinion on the accompanying DHS balance sheets as of September 30, 2006 and 2005, and on the statement of custodial activity for the year ended September 30, 2006; our consideration of DHS' internal controls over financial reporting, RSSI, and performance measures; our tests of DHS' compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements and other matters; and management's and our responsibilities.

### **Report on the Financial Statements**

We were engaged to audit the accompanying balance sheets of the U.S. Department of Homeland Security as of September 30, 2006 and 2005, and the related statement of custodial activity for the year ended September 30, 2006. We were not engaged to audit the accompanying statements of net cost, changes in net position, budgetary resources, and financing for the years ended September 30, 2006 and 2005, and the statement of custodial activity for the year ended September 30, 2005.

The United States Coast Guard (Coast Guard) was unable to provide sufficient evidential matter or make knowledgeable representations of facts and circumstances, that support transactions and account balances of the Coast Guard, as presented in the DHS balance sheets at September 30, 2006 and 2005; particularly with respect to fund balance with Treasury, accounts receivable, actuarially-derived liabilities, environmental and legal liabilities, operating materials and supplies, certain categories of property, plant and equipment, undelivered orders and changes in net position, and adjustments, both manual and automated, made as part of Coast Guard's financial reporting process. The Coast Guard was unable to complete corrective actions, and make adjustments, as necessary, to these and other balance sheet amounts, prior to the completion of the DHS 2006 *Performance and Accountability Report (PAR)*. Because of the significance of these account balances and/or transactions and conditions noted above, Coast Guard management was unable to represent that the Coast Guard's balance sheets as of September 30, 2006 and 2005, were fairly stated in conformity with U.S. generally accepted accounting principles. The total assets of Coast Guard, as reported in the accompanying DHS balance sheet as of September 30, 2006, were \$12.5 billion or 16 percent of total DHS consolidated assets. The total assets of Coast Guard, as reported in the accompanying DHS balance sheet as of September 30, 2005, were \$11.4 billion or 10 percent of total DHS consolidated assets.

DHS Office of Financial Management (OFM) was unable to provide sufficient evidential matter supporting the completeness and accuracy of the Department's accrued legal liability totaling \$71 million as of September 30, 2006, and related contingent legal liabilities as disclosed in Note 21 of the financial statements. In addition, OFM was unable to reconcile intragovernmental transactions and balances with other Federal trading partners totaling approximately \$3.5 billion, as of September 30, 2006, which could



affect the intragovernmental information presented in the balance sheet; and was unable to provide sufficient evidential matter or make knowledgeable representations of the facts and circumstances that support its implementation of Statement of Federal Financial Accounting Standard (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*, prior to the completion of DHS' 2006 PAR. In fiscal year 2005, OFM was unable to reconcile intragovernmental transactions and balances with other Federal trading partners totaling \$1.6 billion, as of September 30, 2005 prior to the completion of DHS' 2005 PAR.

TSA was unable to provide sufficient evidential matter or make knowledgeable representations of facts and circumstances that support certain transactions and account balances of TSA, as presented in the DHS balance sheet at September 30, 2006, particularly with respect to property and equipment, accounts payable, accrued unfunded employee leave, and the components of net position. TSA was unable to complete corrective actions and make adjustments, as necessary, to these and other balance sheet amounts, prior to the completion of the DHS' 2006 PAR. Because of the significance of these account balances and/or transactions and conditions noted above, TSA management was unable to represent that TSA's balance sheet as of September 30, 2006, was fairly stated in conformity with U.S. generally accepted accounting principles. The total assets of TSA as reported in the accompanying DHS balance sheet as of September 30, 2006, were \$4.1 billion or 5 percent of DHS consolidated assets. In fiscal year 2005, TSA was unable to fully reconcile and support the accuracy and completeness of its accounts payable with the public and net position as of September 30, 2005 prior to the completion of DHS' 2005 PAR. The total TSA accounts payable with the public as reported in the accompanying DHS balance sheet as of September 30, 2005, was \$864 million or 26 percent, of DHS consolidated accounts payable with the public and 1.2 percent of DHS consolidated liabilities at September 30, 2005. The total net position of TSA as reported in the accompanying DHS balance sheet as of September 30, 2005, was \$2.4 billion or 5.4 percent of DHS consolidated net position at September 30, 2005.

FEMA was unable to fully support the accuracy and completeness of certain unpaid obligations and accounts payable, and the related effect on net position, if any, prior to the completion of DHS' 2006 PAR. These unpaid obligations, as reported in the accompanying DHS balance sheet as of September 30, 2006, were \$22.3 billion or 46 percent of DHS consolidated unexpended appropriations at September 30, 2006. These accounts payable, as reported in the DHS balance sheet as of September 30, 2006, were \$1.5 billion or 32 percent of DHS consolidated accounts payable at September 30, 2006. In fiscal year 2005, FEMA 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' 2005 PAR. These liabilities, as reported in the accompanying DHS balance sheet as of September 30, 2005, were \$1.7 billion or 2.4 percent of consolidated total liabilities at September 30, 2005.

Immigration and Customs Enforcement (ICE), was unable to fully support the accuracy and completeness of certain accounts payable and undelivered orders, and the related effect on net position, if any, prior to the completion of DHS' 2006 PAR. These accounts payable and undelivered orders, as reported in the accompanying DHS balance sheet as of September 30, 2006, were \$309 million or 7 percent of consolidated total accounts payable, and \$1.2 billion or 2.5 percent of DHS consolidated unexpended appropriations at September 30, 2006, respectively. In fiscal year 2005, ICE management did not perform timely reconciliations and was unable to provide sufficient evidential matter that supported the balance sheet accounts of ICE and certain other DHS components (for which ICE is the accounting service provider), as presented in the accompanying DHS balance sheet as of September 30, 2005, and could not make knowledgeable representation of facts and circumstances regarding accounting and budgetary transactions that occurred in fiscal year 2005. Because of the significance of these account balances and transactions, and condition noted above, ICE management was unable to represent that ICE balance sheet as of September 30, 2005, was fairly stated in conformity with U.S. generally accepted accounting principles. The total assets of ICE and other DHS components, as reported in the accompanying DHS balance sheet as of September 30, 2005, were \$5.9 billion or 5.1 percent of DHS consolidated assets at September 30, 2005.





The Management Directorate was unable to fully support the accuracy and completeness of certain accounts payable and undelivered orders, and the related effect on net position, if any, prior to the completion of DHS' 2006 PAR. These accounts payable and undelivered orders, as reported in the accompanying DHS balance sheet as of September 30, 2006, were \$70 million or 1.5 percent of consolidated total accounts payable, and \$529 million or 1.1 percent of DHS consolidated unexpended appropriations at September 30, 2006, respectively.

In fiscal year 2005, Grants and Training (G&T) (formerly State and Local Government Coordination and Preparedness) 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' 2005 PAR. G&T grants payable, as reported in the accompanying DHS balance sheet at September 30, 2005, is \$171 million or 0.2 percent of consolidated total liabilities.

In addition, we were unable to obtain appropriate representations from DHS management, including certain representations as to compliance with U.S. generally accepted accounting principles, with respect to the accompanying DHS balance sheets as of September 30, 2006 and 2005, and were unable to determine the effect of the lack of such representations on 2006 and 2005 DHS' financial statements.

It was impractical to extend our procedures sufficiently to determine the extent, if any, to which the DHS balance sheets as of September 30, 2006 and 2005, and statement of custodial activity for the year ended September 30, 2006, may have been affected by the matters discussed in the eight preceding paragraphs. Accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying DHS balance sheets as of September 30, 2006 and 2005, and the statement of custodial activity for the year ended September 30, 2006.

We were not engaged to audit the accompanying statements of net cost, changes in net position, budgetary resources, and financing for the years ended September 30, 2006 and 2005, and the statement of custodial activity for the year ended September 30, 2005, and accordingly, we do not express an opinion on these financial statements.

As discussed in Note 34, DHS restated its fiscal year 2005 financial statements to correct multiple errors identified by the Coast Guard, TSA, ICE and other DHS components, that required adjustment of balances previously reported in DHS' fiscal year 2005 financial statements. Because of the matters discussed above regarding our audits of Coast Guard, TSA and ICE, we were unable to audit the restatements discussed in Note 34, and accordingly, we have not concluded on the appropriateness of this accounting treatment or the restatement of the DHS balance sheet as of September 30, 2005.

As discussed in Note 22, DHS adopted the provisions of SFFAS No. 27, in fiscal year 2006. Because of the matters discussed above in the third paragraph of this section, we have not concluded on the appropriateness of the accounting or presentation of earmarked funds in the September 30, 2006 balance sheet or notes thereto.

The information in the Management's Discussion and Analysis (MD&A), RSSI, and Required Supplementary Information (RSI) sections is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. 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 year 2006 and 2005 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 year 2006 we noted that DHS did not present five years of RSSI information as required by SFFAS No. 8 *Supplementary Stewardship Reporting* and OMB Circular A-136.

The information in pages 1 through 4, Section II – Performance Information, Section IV – Other Accompanying Information, and Section V – Appendices, of DHS' 2006 PAR are presented for purposes



of additional analysis, and are not a required part of the 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 financial statements.

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

We noted certain matters, described in Exhibits I and II involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that reportable conditions A through J presented in Exhibit I are material weaknesses. Exhibit II represents other reportable conditions K and L. As discussed in the report on the financial statements section, the scope of our work was not sufficient to express an opinion on the balance sheets as of September 30, 2006 and 2005, and the statement of custodial activity for the year ended September 30, 2006, 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 those financial statements, and had we been engaged to audit the other fiscal year 2006 and 2005 financial statements. A summary of the status of fiscal year 2005 reportable conditions is included as Exhibit 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, 2006.

### **Internal Controls over Required Supplementary Stewardship Information and Performance Measure**

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

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

We noted reportable conditions in internal control over RSSI in Exhibit I – Comment B – *Financial Reporting* that, in our judgment, could adversely affect the DHS' ability to collect, process, record, and



summarize RSSI. We believe that the reportable conditions presented in Exhibit I are material weaknesses as defined above.

As discussed in the report on the financial statements section, the scope of our work was not sufficient to express an opinion on the balance sheets as of September 30, 2006 and 2005, and the statement of custodial activity for the year ended September 30, 2006 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 those financial statements, and had we been engaged to audit the other fiscal year 2006 and 2005 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 seven instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03, and are described in Exhibit III.

The results of our tests of 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. 06-03.

The results of our tests of FFMIA, disclosed instances described in Exhibits I and II – Comments B through L, where DHS’ financial management systems did not substantially comply with Federal financial management systems 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 balance sheets as of September 30, 2006 and 2005, and the statement of custodial activity for the year ended September 30, 2006, 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 those financial statements, and had we been engaged to audit the other fiscal year 2006 and 2005 financial statements.

**Other Matters.** TSA management reviewed the completeness of obligations recorded in its accounting records, and concluded that a violation of the *Anti-deficiency Act* may have occurred in fiscal years prior to 2006. This matter has been referred to the Chief Financial Officer for further review and disposition. In addition, FLETC management has initiated a review of the classification of certain liabilities, recorded in their accounting records that may identify a violation of the *Anti-deficiency Act*, or other violations of appropriation law that may have occurred during fiscal year 2006 or during earlier years.

### **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 Exhibits 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 United States Code, Title 31, Sections 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, DHS prepares and submits financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the financial statements, including:





- Preparing the financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing the MD&A (including the performance measures), RSI, and RSSI;
- Establishing and maintaining effective internal control; and
- Complying with laws, regulations, contracts, and grant agreements applicable to DHS, including FFMIA.

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

**Auditors' Responsibilities.** As discussed in the report on the financial statements section, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the DHS balance sheets as of September 30, 2006 and 2005, or on the statement of custodial activity for the year ended September 30, 2006, and we were not engaged to audit the accompanying statements of net cost, changes in net position, budgetary resources, and financing for the years ended September 30, 2006 and 2005, and the statement of custodial activity for the year ended September 30, 2005.

In connection with our fiscal year 2006 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 *Government Auditing Standards* and OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our engagement was not to provide an opinion on DHS' 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 balance sheet as of September 30, 2006, and the statement of custodial activity for the year then ended, and had we been engaged to audit the other fiscal year 2006 financial statements.

In connection with our fiscal year 2006 engagement, we considered DHS' internal control over the 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. We limited our testing to those controls necessary to test and report on the internal control over RSSI in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over the 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 balance sheet as of September 30, 2006, and statement of custodial activity for the year then ended, and had we been engaged to audit the other fiscal year 2006 financial statements.

OMB Bulletin No. 06-03 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 Information sections, to obtain an understanding of the design of internal controls relating to the existence and completeness assertions and to determine whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin No. 06-03. 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' 2006 PAR.

In connection with our fiscal year 2006 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 balance sheet amounts as of September 30, 2006, and the statement of custodial activity for the year then ended, and certain provisions of other laws and



regulations specified in OMB Bulletin No. 06-03, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the DHS. However, 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. In addition, 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 balance sheet as of September 30, 2006, and the statement of custodial activity for the year then ended, and had we been engaged to audit the other fiscal year 2006 financial statements.

Under OMB Bulletin No. 06-03 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. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. However, as discussed in our report on the financial statements, the scope of our work was not sufficient to express an opinion on the balance sheet as of September 30, 2006, and the statement of custodial activity for the year then ended, and accordingly, other instances of non-compliance may have been identified and reported, had we been able to perform all procedures necessary to express an opinion on the those financial statements, and had we been engaged to audit the other fiscal year 2006 financial statements.

#### **Restricted Use**

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

**KPMG LLP**

November 15, 2006

**Independent Auditors' Report**  
**Exhibit I – Material Weaknesses in Internal Control**

**Introduction and Summary of Findings by Component**

Our report on internal control over financial reporting is presented in accordance with *Government Auditing Standards*, published by the U.S. Government Accountability Office (GAO). Exhibit I presents the reportable conditions that we consider to be material weaknesses, and Exhibit II presents other reportable conditions. The internal control weaknesses presented in Exhibits I and II were identified during our engagement to audit the Department of Homeland Security (DHS or Department) balance sheet and statement of custodial activity as of and for the year ended September 30, 2006.

We have also performed follow-up procedures on findings identified in previous engagements. As stated in our report, our consideration of internal control over financial reporting would not necessarily disclose all matters that might be reportable conditions. We were not engaged to audit all of the Department's financial statements in fiscal year 2006. In addition, the scope of our work was not sufficient to express an opinion on the financial statements that we were engaged to audit, consequently, other internal control matters may have been identified and reported had we been engaged to audit all fiscal year 2006 financial statements, and had we been able to perform all procedures necessary to express an opinion on those financial statements.

Within each finding, except for Financial Systems Security, we have separately reported the conditions at each DHS component that contribute to the overall internal control weakness. The determination of which findings rise to the level of a material weakness is based on an evaluation of how all component conditions, considered in aggregate, may affect the DHS balance sheet as of September 30, 2006 or the statement of custodial activity for the year then ended. The DHS components that contributed to each internal control weakness are identified in the following table:

<u>Internal Control Finding</u>	<u>Contributing DHS Component</u>									
	<u>OFM</u>	<u>USCG</u>	<u>TSA</u>	<u>FEMA</u>	<u>CBP</u>	<u>ICE</u>	<u>G&amp;T</u>	<u>US-Visit</u>	<u>FLETC</u>	<u>MGT</u>
<b>Material Weaknesses:</b>										
A Financial Management & Oversight	X	X								
B Financial Reporting	X	X	X							
C Financial Systems Security <sup>1</sup>										
D Fund Balance with Treasury		X								
E Property, Plant, and Equipment		X	X					X		
F Operating Materials and Supplies		X								
G Legal and Other Liabilities	X	X	X	X				X		
H Actuarial Liabilities		X								
I Budgetary Accounting		X	X	X		X		X		X
J Intragovernmental Balances	X									
<b>Other Reportable Conditions:</b>										
K Environmental Liabilities		X							X	
L Custodial Revenue and Drawback					X					

The severity of the conditions discussed in Exhibit I caused the Secretary and CFO to issue a statement of “no assurance” on internal control over financial reporting in 2006. In addition, the CFOs of various DHS components were unable to render unqualified assurances on the accuracy and completeness of certain financial statement line items.

<sup>1</sup> All DHS components contribute to the Financial Systems Security finding.

## Independent Auditors' Report

### Exhibit I – Material Weaknesses in Internal Control

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#### A. Financial Management and Oversight (Entity-Level Controls)

*Background:* In fiscal year 2005, we reported that the DHS Office of the Chief Financial Officer (OCFO) had taken several positive steps during the year to correct control weaknesses we reported in previous years. Progress continued in fiscal year 2006, and we have seen signs of momentum through the leadership of the Department's recently confirmed Chief Financial Officer (CFO). However, challenges remain due, in part, to the continued transition of the Department. DHS' Office of Financial Management (OFM) is responsible for establishing and maintaining financial policies that guide financial reporting throughout the Department, implementing internal controls to ensure the overall integrity of financial data, and preparing periodic financial statements, as well as drafting the annual *Performance and Accountability Report* (PAR). Several conditions cited in the prior year are repeated this year, and we identified additional weaknesses in OFM financial management and oversight controls.

In fiscal year 2005, we reported that significant weaknesses in financial management oversight hindered the United States Coast Guard's (Coast Guard) ability to prepare accurate, complete, and timely financial information. Those conditions have not been corrected since the inception of the Department in 2003, and continue to affect Coast Guard's financial management and reporting processes. Further, as described below, the Coast Guard is presently developing its Corrective Action Plan (CAP)'s however, has not yet taken significant actions to address the condition cited below.

In fiscal year 2005, we also 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 DHS components. In fiscal year 2006, ICE initiated a CAP to remediate control weaknesses reported in previous years. While ICE has not fully completed its CAPs in all processes, sufficient progress has been made to remove the ICE financial management and oversight conditions cited in our 2005 report.

*Conditions:* Many of the conditions described below are indicators of a weak control environment<sup>2</sup> or entity-level controls. The control environment begins at the top with the Secretary, and permeates the organization with a mindset of quality, care, and commitment of resources to reasonably ensure the integrity of DHS' financial processes, controls, and information technology (IT) systems. We noted the following conditions related to the control environment which existed in prior years, and have been updated for this report.

1 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 determine data supporting financial statement assertions are complete and accurate.
- Established clear financial 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 assess potential financial system problems, such as potential posting logic errors and automated changes to financial data through scripts (system modifications).

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<sup>2</sup> Regarding the control environment, the GAO *Standards for Internal Control in the Federal Government*, states; "Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management."

## Independent Auditors' Report

### Exhibit I – Material Weaknesses in Internal Control

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- Fully established financial management oversight functions with the appropriate skills and resources to determine that accounting principles are correctly applied and to provide accounting operational guidance to other offices and facilities within the Coast Guard.
- Completed a comprehensive CAP to correct longstanding internal control weaknesses that are contributing to each of the ten Department level material weaknesses, as required by Office of Management and Budget (OMB) Circular No. A-50, *Audit Follow-up*, as revised.

#### 2 OFM:

- While the OFM is staffed with exceptionally dedicated management and staff, additional managerial level skill sets are needed to fully accomplish OFM responsibilities. OFM does not have a sufficient number of management personnel who have the requisite financial accounting background, knowledge, and expertise, to both (i) set-up, and (ii) effectively manage the financial reporting and internal control infrastructure of a large and complex Executive Branch agency. Supporting conditions include the need to:
  - Establish an organizational structure and complete job descriptions, based on a comprehensive independent human capital needs assessment, to determine the roles, responsibilities, and functions to be performed, and the skill sets of personnel necessary to perform those functions. Consequently, some critical responsibilities of a headquarters financial reporting operation are not well defined or are not performed timely and effectively; and
  - Develop the capacity to completely and timely address non-routine or complex accounting and reporting matters, such as the implementation of new accounting standards. For example, the Department did not complete its implementation of Statement of Federal Financial Accounting Standard (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*, until we notified OFM of the information and analysis required, and OFM was unable to provide sufficient evidential matter or make knowledgeable representations of the facts and circumstances to support its implementation of SFFAS No. 27, prior to the completion of DHS' 2006 PAR.
- Has not yet established effective oversight and control procedures throughout the year to monitor the operations of DHS components to promptly identify and raise issues to the CFO that may affect the quality of the financial statements. This weakness contributed to the need for more than six restatements of the fiscal year 2005 financial statements to correct material errors presented in the 2005 PAR. Further, several components submitted restatements that were not fully identified, analyzed, and recorded in the 2005 financial statements, until two weeks before the submission of the 2006 PAR.
- Has not yet established a process to support the timely completion of the annual financial statement audit. For example, OFM was unable to coordinate requests for sufficient evidential matter supporting the completeness and accuracy of the Department's accrued legal liability, totaling \$71 million as of September 30, 2006, as necessary to complete our testwork prior to the completion of DHS' 2006 PAR. In addition, many routine audit testwork procedures typically performed throughout the year were delayed until year-end, further hindering the timely completion of our engagement.

*Cause/Effect:* DHS has attempted the stand-up of a large, new, and complex Executive Branch agency, without the assistance of specialized organizational and accounting expertise. The Department has recently made commitments in financial management and accounting personnel and other critical infrastructure necessary to develop reliable financial processes, policies and



## Independent Auditors' Report

### Exhibit I – Material Weaknesses in Internal Control

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procedures, and internal controls that enable management to represent that the Department's financial statements are complete and accurate. In fiscal year 2006, the OCFO and OFM were affected by the departure and transition to a new CFO, the departure of the Under Secretary of Management; and a restructuring and redistribution of roles and responsibilities within OFM. However, these transitions have resulted in a continued heavy dependency on the independent auditor to inform OFM of the steps needed to implement new accounting standards, record non-routine transactions, issue accounting guidance to components, identify errors in accounts, and establish appropriate controls.

The Coast Guard's 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 policies, making it difficult for the CFO to institutionalize internal controls related to financial management and reporting that are outside the CFO's direct organization. However, control weaknesses at the Coast Guard significantly impede the Department's ability to produce reliable financial statements and the conditions causing the weaknesses have existed nearly unchanged since 2003.

The conditions described above continue to prevent DHS from timely preparation of accurate financial information and reports and have also contributed to the conditions reported in Comment B – *Financial Reporting* of this Appendix.

*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's *Standards for Internal Control in the Federal Government (Standards)*. The GAO defines internal control as an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. The GAO *Standards* identify the control environment, as one of the five key elements of control, which emphasizes the importance of control conscientiousness in management's operating philosophy and commitment to internal control. These standards cover controls such as human capital practices, supervisory reviews, and segregation of duties, policies, procedures, and monitoring.

According to OMB Circular No. A-50, corrective action taken by management on audit findings and recommendations is essential to improving the effectiveness and efficiency of Government operations. Each agency shall establish systems to assure the prompt and proper resolution and implementation of audit recommendations. These systems shall provide for a complete record of action taken on both monetary and non-monetary findings and recommendations.

*Recommendations:* We recommend that:

1. Coast Guard:
  - a) Evaluate the existing financial management organizational and internal control structure and conduct an assessment to determine the number and type 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;

## Independent Auditors' Report

### Exhibit I – Material Weaknesses in Internal Control

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- b) Consider the establishment of an Office of Financial Management within the Coast Guard, that would have the authority, ability, and appropriate resources to oversee all Coast Guard financial management policy, systems, and reporting functions;
  - c) 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, and prioritize remediation of material weaknesses given the available resources;
  - d) 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 problems such as potential posting logic errors and automated changes to financial data through scripts (system modifications); and
  - e) Develop and implement a comprehensive CAP to correct conditions that contribute to the Department-level material weaknesses in internal controls.
2. OCFO (in particular OFM):
- a) Clearly define the roles and responsibilities, organizational structure of OFM, and critical success factors that are necessary to set-up and then manage the financial reporting operations of DHS;
  - b) Perform a human capital needs assessment, with particular focus on OFM leadership and management skills needed to set-up and then manage the daily operations of OFM. The assessment should be conducted by an independent specialist, and should identify the additional managerial skill sets, e.g., financial accounting background, knowledge, and expertise, required to both establish and strengthen the financial accounting and reporting infrastructure throughout the Department, and, once established, to effectively manage the processes, gradually correct control weakness, and produce reliable and timely financial statements throughout the year;
  - c) Exercise the authority provided by the Secretary to require bureaus that contribute to material weaknesses to develop and implement sound, appropriately funded, CAPs that will eliminate material weaknesses and result in timely, accurate financial reporting. This initiative will likely require assistance from the Secretary to emphasize the necessity of good financial management, hold other departmental management accountable for progress, and, in some cases, will require substantial cultural shifts and a commitment of resources;
  - d) Implement procedures that will allow the auditors to complete more audit procedures earlier in the year, and ensure that audit requests for information are provided completely and timely. This will involve improved coordination with other operating departments of DHS, such as the Office of General Counsel for timely and accurate updates to legal liabilities; and
  - e) Continue with the CAP program to develop and implement Department wide CAPs, to promptly address audit findings of all auditors, e.g., Inspector General, GAO, and financial statement auditors, in compliance with OMB Circular No. A-50.



## Independent Auditors' Report

### Exhibit I – Material Weaknesses in Internal Control

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#### B. Financial Reporting

*Background:* Under the current financial reporting structure, the OFM prepares financial statements, including footnote and supplementary data, from trial balances and other financial data submitted by the components to the OFM through the Treasury Information Executive Repository (TIER) system. OFM is dependent on the components for complete, accurate, and timely submission of monthly financial data, and is not structured to consistently identify and resolve potential errors or abnormalities in the data received. The OFM 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.

In fiscal year 2005, we reported that OFM, Coast Guard, and ICE had numerous serious internal control weaknesses that led to a material weakness in financial reporting. While each component developed a CAP to address the control weaknesses, only ICE was able to make substantial progress during the year. The OFM and Coast Guard lag behind in both development and execution of their CAP, and, consequently, many of the conditions reported in the prior year are repeated below, together with new weakness discovered during our fiscal year 2006 engagement.

We also reported in fiscal year 2005 financial reporting weaknesses at the Transportation Security Administration (TSA), Office of Grants and Training (G&T) (formerly SLGCP), and the Federal Emergency Management Agency (FEMA) (formally included in the EPR Directorate). G&T and FEMA successfully executed CAPs to address the conditions reported last year. TSA's financial reporting weaknesses reported last year have been repeated again in fiscal year 2006.

*Conditions:* We noted the following internal control weaknesses related to financial reporting in the OFM and DHS components:

##### 1 OFM:

- Continued to have significant difficulty coordinating delivery of financial data from components and preparing financial statements and disclosures throughout the year. We identified numerous errors, inconsistencies, and out-of-balance conditions, inadequate or incomplete disclosures, lack of supporting documentation, e.g., for journal entries posted, and lack of due diligence to follow-up on questionable information provided by components. We noted weaknesses in year-end close-out and beginning balance reconciliations and delays in completion of the interim and year-end PAR.
- Has not established adequate Departmental policies and procedures, or issued timely guidance, to ensure that financial statements are accurate and complete during the year. For example, OFM did not issue comprehensive, timely guidance to the components on Interpretation of SFFAS No. 6, *Accounting for Imputed Intra-departmental Costs*, on implementation of SFFAS No. 27, or on resolving intradepartmental and elimination discrepancies or reconciling intergovernmental balances with significant federal government trading partners. In some cases, guidance was issued only after the external auditor notified OFM of the requirements. This condition contributed to the Department's self-reporting of noncompliance with the *Debt Collection Improvement Act*, and submission of erroneous intragovernmental balances to U.S. Department of the Treasury during the year.
- Has not established effective monitoring controls over the financial data periodically submitted by the DHS components. The component TIER submissions contained numerous abnormal balances and potential errors totaling billions of dollars that affected

## Independent Auditors' Report

### Exhibit I – Material Weaknesses in Internal Control

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the accuracy of the DHS financial statements throughout the year without adequate investigation or resolution until after year-end.

#### 2 Coast Guard:

- Has not developed and implemented an effective general ledger system. The Core Accounting System (CAS), Aircraft Logistics Management Information System (ALMIS), and Naval Engineering Supply Support System (NESSS) general ledgers are significantly noncompliant with the requirements of the *Federal Financial Management Improvement Act* (FFMIA). Specifically:
  - The general ledgers are not compliant with the United States Standard General Ledger (USSGL) at the transaction level, include non-compliant chart of account definitions, invalid accounts, improper posting logic codes and inconsistent crosswalks to the Coast Guard TIER database as well as static balances related to a legacy general ledger conversion and unsubstantiated automated changes to CAS financial data through the use of hundreds of scripts, implemented without effective controls to correct system problems;
  - The Coast Guard's TIER submissions to OFM are from a database that does not have detail at the transactional level, and is not reconciled or supported by the transaction level detail in the Coast Guard's three general ledgers; and
  - The financial reporting process is overly complex and labor-intensive, and requires a significant number of "on-top" adjustments (adjustments made outside the core accounting system for presentation of financial information given to DHS for consolidation). These topside adjustments are not supported at the transaction level and are not recorded to the respective general ledgers. Thus, period-end and opening balances are only supported by the Coast Guard TIER database, and the three general ledgers do not support the financial statements.
- Has a serious deficiency in its policies, procedures and controls surrounding its financial reporting process. For example, the Coast Guard:
  - Does not record all financial transactions, either in detail or at the summary level, to the general ledger systems. Consequently, the Coast Guard can not be reasonably certain that its financial statements are complete or accurate at any time;
  - Does not have adequate beginning balance and year-end close-out procedures. For example, no reconciliation is performed to ensure that opening balances agree to the prior year ending balances. Year-end closing procedures do not include sufficient supporting documentation such as evidence of effective management review, approval of individual adjusting entries, or procedures to determine that all necessary adjustments were identified;
  - Routinely uses high level analytical comparisons to identify adjusting entries. Adjusting entries are then recorded, without support or verification that the adjustment is valid. For example, budgetary accounts are forced to equal proprietary accounts, without determining the underlying cause for the imbalance at a transactional level of detail to support the correct ending balances;
  - Does not have written policies and procedures for analyzing revolving, special, and trust funds, and there is inconsistent treatment of inter-entity balances for the Supply, Cadet, and Yard funds; and

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- Does not have effective policies and procedures to identify and resolve abnormal balances and identified potential errors in its financial data. A significant number of abnormal account balances, totaling billions of dollars, exist throughout the year in its three general ledgers that are not investigated.
  - Does not have adequate procedures and internal controls over the process of preparing and reviewing the financial statement disclosures. Certifications were made to the DHS CFO without reviewing appropriate supporting documentation to determine that the footnotes are accurate and complete.
  - Does not have an adequate process to record, review, and monitor accounts receivable activity. The accounts receivable CAPs developed by the six Coast Guard processing locations do not provide detailed procedures necessary to evaluate and remediate their accounts receivable balances and support Coast Guard management's financial reporting assertions. The current standard operating procedures (SOPs) are out of date or in draft format, lack detail, and do not identify and describe the internal controls over the process. In addition, the SOPs do not clearly identify and define proper supporting documentation for the various types of accounts receivable or the policies/process for conducting research to (1) resolve variances between the accounts receivable sub-ledgers and the system general ledger, and (2) determine if aged receivables are valid.
- 3 TSA continued to experience difficulties related to financial reporting. Specifically, we noted:
- Certain accrual amounts were not posted, and certain property amounts were misstated, in the final financial data submission for the June 30, 2006 hard-close; numerous other on-top adjustments were made thereafter; certain account reconciliations were not performed timely or completely throughout the year; and material abnormal balances and analytical account variances were not resolved timely throughout the year.
  - Sufficient processes and procedures have not been established to enable the successful completion of a financial statement audit in two successive years. In fiscal year 2005, the financial statement auditor did not issue a report because of TSA's inability to provide requested information related to its accounting and reporting for aviation security fees. In fiscal year 2006, TSA resolved prospective accounting for the aviation security fee issue, but did not complete its analysis to determine retroactive adjustments, if any; and additional circumstances caused significant inefficiencies and unnecessary delays that prevented the completion of the testwork prior to DHS' submission of its 2006 PAR.
  - TSA could not provide complete supporting documentation for numerous journal vouchers, and we identified several journal vouchers that were not approved prior to posting in the general ledger.
- 4 OFM and certain components did not have effective financial information systems or sufficiently documented processes to accumulate cost data by DHS strategic goal, as required by SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards*.

*Cause/Effect:* Many of the issues mentioned above stem from the conditions described in Comment A - *Financial Management and Oversight*. The OFM is still working to set-up the Department with effective financial policies and procedures that will ensure a smooth and reliable month-end close for all components and the consolidated entity. Policies developed by OFM often take months, even more than a year in some cases, before they are approved for release, due in part to a lack of defined authority for financial policy within the Department. By design, OFM is not staffed to function as a control over the accuracy of financial data received by the components. Consequently, errors and abnormal balances that exist in data submitted by

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components to OFM, or a lack of component responsiveness to OFM requests, have remained unresolved throughout the year and are reflected in the financial statements even though OFM and the component are aware of the conditions.

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 serious structural system deficiencies that make the financial reporting process more complex and difficult.

The quality of TSA's financial data and reliability of the financial reporting process has been negatively impacted by the recent transition to the Coast Guard's accounting system and resulting changes to the financial reporting process.

*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. OFM:
  - 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 OCFO should perform several "test runs" during fiscal year 2007, e.g., each quarter, to critically evaluate and improve the process as necessary;
  - b) Perform a review to determine processes, procedures and methods to make the role of the desk officer a more effective monitoring control. The objective should be to consistently identify potential errors in financial data submitted by components, and to engage the Director of OFM or the CFO, if necessary, to have the potential errors investigated and corrected, if necessary, before the next period component TIER submission;
  - c) Complete a formal risk assessment to identify significant risks to the financial reporting process and continue to develop and implement its Internal Control over Financial Reporting (ICOFR) playbook and OMB Circular No. A-123 process to manage and mitigate those risks; and
  - d) Establish new or improve existing policies and procedures to ensure that:
    - i) Instances of noncompliance with laws and regulations that could have a direct and material impact on the financial statements are promptly identified and reported to OCFO;

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- ii) New policies and guidance that affect the quality and consistency of financial reports and data, including accounting guidance needed by the components for intradepartmental transactions, is approved by the CFO and issued in a timely manner;
  - iii) Intradepartmental and intragovernmental elimination discrepancies and reconciling differences are promptly identified and addressed throughout the year;
  - iv) The financial statements are updated to include all disclosures, including the adoption of new accounting standards and restatements of prior year financial statements, and are addressed early each fiscal year, e.g., first and second quarter, to give management and the auditors an opportunity to review changes before year-end; and
  - v) Adequate supporting documentation is maintained for all elimination and other adjusting entries made at the financial statement level.
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 reconciled and supported by transactional detail contained in the general and subsidiary ledgers, and causative research performed for imbalances and abnormalities;
  - b) Establish new or improve existing policies and procedures to ensure that:
    - i) All financial transactions are recorded in the general ledger at the detail USSGL level as they occur;
    - ii) The year-end close-out process and reconciliations are supported by documentation, including evidence of effective management review and approval, clear identification of all on-top adjustments with all associated general ledger account entries, and beginning balances in the following year are determined to be reliable and auditable;
    - iii) Account reconciliations, for each of the three general ledgers and the monthly TIER submission, are performed timely and completely each month and differences are researched and resolved before the next months reporting cycle. Reconciliations should include all funds maintained by the Coast Guard, including revolving, special and trust funds;
    - iv) Eliminate the practice of using high level analytics as the sole source of support for adjusting journal entries; and
    - v) Significant abnormal balances are investigated and resolved at a transaction level before the monthly TIER is submitted to OFM.
  - c) Establish a task force of outside experts to analyze the Coast Guard's financial reporting process, and IT systems functionality, in order to develop effective CAPs, including a timeline for action with verifiable milestones, to correct identified deficiencies, to include researching all differences/imbalances identified as a result of past practices at a transactional level and to assess and report the effects on current and prior financial reporting; and
  - d) Identify all Coast Guard accounts receivables and then implement comprehensive Coast Guard-wide policies and procedures, including internal controls, at a sufficient level of



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detail to determine that the accounts receivable process is effective to support management assertions, in compliance with generally accepted accounting principles, for the accounts receivable balance reported on the Coast Guard balance sheet.

3. TSA:
  - a) Conduct an assessment of the 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;
  - b) Document key standard operating procedures for significant financial reporting processes, including the TIER submissions;
  - c) Complete and document a year-by-year analysis (since TSA's inception) of the impact of the change in the accounting treatment of aviation security fees on the year-end account balances, and prepare appropriate adjusting entries, as necessary;
  - d) Assess the reason why TSA experienced significant delays and had difficulty responding to information requests from the auditors in fiscal year 2006, and implement corrective actions; and
  - e) Document and consistently implement policies and procedures for the preparation and approval of journal vouchers for submission to its accounting services provider. Policies and procedures should include requirements for (a) full completion of the journal voucher form itself, and (b) attached documentation to support each journal voucher.
4. OFM and applicable component entities should develop financial information systems and document processes to accumulate and present cost data by DHS strategic goal, as required by SFFAS No. 4.

#### C. Financial Systems Security

Background: Controls over 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 control access to an application, separate individuals from accessing particular application modules such as accounts payable, inventory, payroll, grants, or loans, and assess if the specific interface and edit controls are in place, as defined by management.

During fiscal year 2006, a few DHS components took actions to improve their IT general and application control environment and to address prior year IT control issues; however, some DHS components did not make necessary improvements, during the year. During the 2006 we identified over 200 separate findings, some in each DHS component. DHS was able to close approximately 45% of our prior year IT findings; however, we identified over 130 new IT findings through our test work this year. In addition, a significant number of findings were repeated in fiscal year 2006.

The control areas where the increases in findings present an increased risk of impacting financial data integrity include: 1) excessive access to key DHS financial applications, 2) misconfigured logical security controls to key DHS financial applications and support systems, and 3) application change control processes that are inappropriate, and in other locations not fully defined, followed, or effective. The re-issuance and additionally identified internal control

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weaknesses were the result of a lack of needed prioritization of taking the necessary corrective actions. Despite the improvements in a few DHS components, 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.

*Conditions:* In fiscal year 2006, the following IT and financial system control weaknesses were identified at DHS and its components. Many of the issues identified during our fiscal year 2006 engagement were also identified during fiscal year 2005:

- 1 Entity-wide security program planning and management – we noted:
  - Despite continued improvements in the process of performing Certification and Accreditation (C&A) of IT systems, nine DHS component financial and associated feeder systems, at three DHS components, were not properly certified and accredited, in compliance with DHS 4300A.
  - Instances of incomplete or inadequate policies and procedures associated with computer incident response capabilities at four DHS components.
  - Instances where background investigations of contractors employed to operate, manage and provide security over IT systems were not being properly conducted related to DHS components or sub-components, at three DHS components.
  - Instances of lack of compliance with DHS computer security awareness training requirement, and / or lack of component policies for IT-based specialized security training at three DHS components.
- 2 Access controls – we noted:
  - A large number of instances of missing and weak user passwords on key servers and databases which process and house DHS financial data at six DHS components.
  - A large number of instances where user account lists were not periodically reviewed for appropriateness, and inappropriate authorizations and excessive user access privileges were allowed at nine DHS components.
  - Instances where workstations, servers, or network devices were configured without necessary security patches or were not configured in the most secure manner at five DHS components.
  - Instances where physical access to sensitive computer operations were not adequate at four DHS components.
- 3 Application software development and change control – we noted:
  - One DHS component had implemented a separate and secondary change control process outside of and conflicting with the established change control process. During our testing of this separate process, we identified it to be informal, undocumented, and not effective.
  - Instances where policies and procedures regarding change controls were not in place to prevent users from having concurrent access to the development, test, and production environments of the system at four DHS components.
  - Instances where changes made to the configuration of the system were not always documented through System Change Requests (SCRs), test plans, test results, or software modifications at seven DHS components. Additionally, documented approval did not exist, or was not always retained, for emergency enhancements, “bug” fixes, and data



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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 at six DHS components. In some cases, the ability to monitor security logs did not exist.
- Instances where 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 at four DHS components.
- An instance where the policy and procedures to define and implement segregation of duties were not properly developed and/or implemented at one DHS component.
- Access control weaknesses identified during our IT testing also contributed to numerous instances where access to data could lead to various incompatible function issues, including the override of transactions at five DHS components.

#### 6 Service continuity – we noted:

- Instances where incomplete or outdated business continuity plans and systems with incomplete or outdated disaster recovery plans were noted at four DHS components. Some plans did not contain current system information, emergency processing priorities, procedures for backup and storage, or other critical information.
- Service continuity plans were not consistently and/or adequately tested, and individuals did not receive training on how to respond to emergency situations at four DHS components.

#### 7 Application controls – we noted:

- Instances of weak or expired user passwords, user accounts that were not kept current, users with access privileges to certain key processes of an application, and key edit and business rules not working as designed by management at nine DHS components. Many of the weaknesses that were identified during our general control testing of an application's access controls and segregation of duties are also relevant to this area, since access and segregation of duty controls are controls over the application. 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 or system development activities that did not incorporate strong security controls from the outset and will take several years to fully address. 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 required by OMB Circular No. A-127, *Financial Management Systems*.

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Further, there is no consistent and thorough testing of IT controls by individual DHS components and by the DHS CIO to identify and mitigate weaknesses. The most prevalent reason as to why these weaknesses are present is the lack of prioritization in taking the necessary actions to improve the IT control environment around the Department's financial management systems. The effect of these numerous IT weaknesses identified during our testing impacts the reliability of DHS' financial data. Many of these weaknesses, especially those in the area of change control, may result in material errors in DHS' financial data that are not detected, in a timely manner, in the normal course of business. In addition, as a result of the continuous presence of serious IT deficiencies, there is added pressure on the mitigating manual controls to be operating effectively at all times. Since manual controls are operated by people, there cannot be a reasonable expectation that they would be able to be in place at all times and in all areas.

*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. The *Information Technology Security Program Publication*, section 4300A, also provides criteria and guidance that is applicable to DHS financial systems security and general controls.

*Recommendations:* We recommend that the DHS Office of Chief Information Officer in coordination with the OCFO make the following improvements to the Departments financial management systems:

1. For entity-wide security program planning and management:
  - a) Enforce through the DHS C&A program across all DHS components, a testing process which goes beyond an assessment of in-place policies and procedures, to include tests of password "strength", access lists, and software patches, of an application, for example;
  - b) Enforce the consistent implementation of security programs, policies, and procedures, including incident response capability and IT security awareness and training; and
  - c) Enforce DHS' policy to ensure that all contractors go through the appropriate background/suitability check.
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:

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- a) Implement a single, integrated change control process over the DHS components' financial systems with appropriate internal controls to include clear lines of authority to the components' financial management personnel and to enforce responsibilities of all participants in the process and documentation requirements;
  - b) Develop policies and procedures regarding change controls, and implement to ensure segregation of change control duties; and
  - c) 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 of 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,
    - 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; and
    - d) Implement the appropriate oversight over the edit and interface controls to ensure that the financial processes are operating as management had designed.

#### 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.

In fiscal year 2005, we reported the existence of material weaknesses in FBwT at ICE and the DHS components for which it performs accounting services. Early in fiscal year 2006, ICE implemented a CAP to fully reconcile its funds with Treasury, clear suspense accounts, and establish improved processes and controls for itself and the components, to address the material weakness. The results of our follow-up procedures performed in fiscal year 2006, allow us to remove the ICE conditions reported in fiscal year 2005 from this material weakness.

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In fiscal year 2005, we also reported the existence of a material weakness in FBwT at Coast Guard. The Coast Guard has not yet developed or implemented comprehensive FBwT CAPs, and consequently, we are repeating and expanding the conditions cited in last year's report. FBwT at the Coast Guard totaled approximately \$4.5 billion, or 7.5 percent of total DHS assets, at September 30, 2006. The majority of these funds represented appropriated amounts that were obligated, but not yet disbursed, at September 30, 2006.

*Conditions:* The Coast Guard:

- Was unable to provide military and civilian payroll data to support payroll transactions processed through Coast Guard's FBwT, USSGL account 1010. Coast Guard did not properly report and reconcile these transactions or maintain appropriate supporting documentation.
- Did not effectively manage or monitor its suspense accounts, to include accurately aging and clearing items carried in suspense clearing accounts in a timely manner during the year. The Coast Guard's processes and accounting for suspense account transactions is not effective. Coast Guard made inappropriate changes to suspense accounting procedures in the current year and continues to lack documented procedures and internal controls in this area.
- Did not maintain adequate supporting documentation that validated the accuracy of the FBwT reconciliations and the clearing of suspense items, to include posting unsupported adjustments to Coast Guard reported general ledger activity submitted to Treasury and to agree Coast Guard balances to Treasury records without support documentation. Approximately 85% of the balances were not recorded correctly or supported by proper documentation.
- Did not properly design policies, procedures, and internal controls over Coast Guard's process of initiating, authorizing, and recording budgetary authority in Coast Guard's FBwT, USSGL account 1010. Deficiencies include a lack of segregation of duties and management review of the proprietary journal vouchers for recording and reconciling budgetary authority (see Comment I – *Budgetary Accounting*).

*Cause/Effect:* The Coast Guard has not designed and implemented policies, procedures, and internal controls, including effective reconciliations and the use of a financial system that complies with Federal Financial System Requirements, as defined in OMB Circular A-127 and the requirements published by the Joint Financial Management Improvement Program (JFMIP), to fully support the fiscal year 2006 FBwT activity and balance at September 30, 2006. The Coast Guard did not maintain sufficiently detailed records to clear suspense accounts in a timely manner, and did not use tools available to them properly to improve the process, such as the *Government-wide Accounting System (GWA)*. Failure to implement timely and effective reconciliation processes could increase the risk of fraud, abuse, undetected violations of appropriation laws, including instances of undiscovered *Anti-deficiency Act* violations, and mismanagement of funds, which could lead to inaccurate financial reporting and affects DHS' ability to effectively monitor its budget status.

*Criteria:* The Treasury Financial Manual (TFM)<sup>3</sup> states, "Federal agencies must reconcile their USSGL account No.1010, and any related sub-accounts, with the FMS 6652, 6653, 6654 and 6655 on a monthly basis (at minimum). Federal agencies must research and resolve differences between the balances reported on their general ledger FBwT accounts and balances reported on the FMS 6653, 6654 and 6655." In addition, Section 803(a) of FFMIA requires that Federal

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<sup>3</sup> TFM, Supplement I TFM 2-5100 (November 1999)

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financial management systems comply with (1) Federal accounting standards, (2) Federal system requirements, and (3) the USSGL at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability.

According to OMB Circular No. A-123, 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 Coast Guard:

- a) Establish policies and procedures to ensure payroll data, supporting payroll transactions processed through FBwT (account 1010), is properly maintained and available for audit testwork, as needed;
- b) Establish policies and procedures to better manage its suspense accounts to include researching and clearing items carried in suspense clearing accounts in a timely manner during the year, and maintaining documentation of periodic reconciliations of FBwT;
- c) Establish policies and procedures to improve segregation of duties and management review of the journal vouchers for recording and reconciling budgetary authority. The policies should be based on Treasury guidance and tailored to the Coast Guard's operations; and
- d) Enhance financial accounting system(s) to ensure compliance with federal financial management system requirements.

## E. Property, Plant, and Equipment

*Background:* Property, plant, and equipment (PP&E) represents approximately 8.5 percent of total DHS assets, and the Coast Guard maintains more than 50 percent of all DHS PP&E, including a large fleet of aircraft and vessels. Many of the Coast Guard's assets are constructed over a multi-year period, 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. As reported in prior years, the Coast Guard has been unable to provide auditable documentation for certain categories of PP&E, due to a number of policy, control, and process deficiencies that will require several years to correct, and consequently, most of the conditions cited below have been repeated from our 2005 report and have existed since the Department's inception in 2003. In addition, as noted in our 2005 report, DHS has several internal use software development projects underway that will result in capitalized software balances in future years, particularly in the US-Visit directorate. Consequently, application of proper accounting standards to account for PP&E is important to the accuracy of DHS' financial statements. In fiscal year 2006 we identified new issues related to TSA's PP&E balances.

*Conditions:*

- 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. Significantly, Coast Guard has not designed or implemented effective controls to manage, account for, and properly support costs recorded its General



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PP&E Construction in Progress projects, as amounting to approximately \$2.3 billion on the DHS balance sheet as of September 30, 2006.

- Consistently applied policies and procedures to ensure appropriate documentation supporting PP&E acquisitions and their existence is maintained and readily available for audit testwork.
  - Developed and documented methodologies and assumptions to support the value of PP&E that is not supported by original acquisition or other documentation.
  - Implemented accurate and complete asset identification, system mapping, and tagging processes that include sufficient detail, e.g., serial number, to clearly differentiate and accurately track physical assets to assets recorded 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.
- 2 US-Visit did not consistently apply procedures to identify and capitalize software development costs or to reclassify software placed into production from software in development. Consequently, US-Visit was unable to fully support the accuracy and completeness of certain property, plant and equipment balances, to allow us to complete our testwork, prior to the completion of DHS' 2006 PAR. At September 30, 2006, software development costs for US-Visit totaled over \$300 million and are expected to increase in future years.
- 3 TSA has not implemented adequate policies and procedures to properly account for and support its property balances. Specifically, we noted:
- Subsidiary records i.e., Sunflower and the Fixed Asset Module, have not been reconciled timely to the general ledger. A fixed asset holding account used by TSA's accounting services provider interferes with the performance of timely reconciliations.
  - The Fixed Asset Module, a subcomponent of the general ledger, had not been updated for depreciation, additions and disposals related to certain property and equipment items since fiscal year 2004.
  - TSA maintains idle property where accounting for idle and impaired value of property has not been considered. Consequently, TSA may have overvalued assets on its balance sheet at September 30, 2006.
  - TSA was unable to provide adequate supporting documentation for a statistical sample of property and equipment items held at August 31, 2006, in a timely manner.

*Cause/Effect:* Coast Guard policies and procedures are not adequate to ensure that PP&E and construction in process transactions are completely and properly accounted for and consistent with generally accepted accounting principles. In addition, the policies and procedures that are in place are not consistently followed, or do not include sufficient controls to ensure compliance with policy or to ensure complete supporting documentation is maintained and available for audit testwork. The fixed asset module of the Coast Guard's CAS is not updated for effective tracking of all PP&E, and its capabilities are not fully utilized to clearly differentiate and accurately track assets.

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While US-Visit has developed adequate accounting policies for tracking software development costs, these policies are not fully or adequately implemented. Over the next few years, significant resources for the development of new software, such as the US-Visit program, will likely be spent. Therefore, the lack of full implementation of these policies increases the risk of financial statement errors due to misapplication of accounting standards for software.

Change in personnel and IT system interface difficulties likely contributed TSA's conditions affecting property balances. These conditions caused material errors in the interim financial statements and continued until the problem was identified by the external auditor.

*Criteria:* SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, requires that:

- PP&E is 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.

According to OMB Circular No. A-123, 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.

GAO *Standards* state that internal controls should generally be designed to assure that on-going monitoring occurs in the course of normal operations. Management is responsible for developing control activities, which are the policies, procedures, techniques, and mechanisms that enforce management's directives and help ensure actions address risks. The activities include reviews by management at the functional or activity level, proper execution of transactions and events, accurate and timely recording of transactions and events, and appropriate documentation of transactions and internal control.

FFMIA Section 803(a) requires each agency to implement and maintain a system that complies substantially with Federal financial management system requirements as stipulated in OMB Circular No. A-127. That Circular requires an agency's system design "to have certain characteristics that include...consistent internal controls over data entry, transaction processing, and reporting throughout the system to ensure the validity of the information."

SFFAS No. 10, *Accounting for Internal Use Software*, provides requirements for the capitalization and reporting of software development costs. GAO *Standards* require that internal control and all transactions and other significant events be clearly documented and readily available for examination. The Joint Financial Management Improvement Program, *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, including 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. US-Visit should 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, and appropriate and sufficient evidence is maintained to document management's decisions that lead to significant accounting transactions.
3. TSA:
- a) Work with its accounting services provider to ensure that the interface between Sunflower and the general ledger functions properly and discontinue the use of the fixed asset holding account;
  - b) Ensure that accounting records are updated timely based on the results of the periodic inventories;
  - c) Update and maintain the activity for all property and equipment items in Sunflower and the Fixed Assets Module;
  - d) Perform and document timely reconciliations between Sunflower, the Fixed Asset Module and general ledger;
  - e) Review those items identified as idle, determine the appropriate accounting treatment and document the related rationale; and
  - f) Ensure adequate supporting documentation exists and is readily available to support the acquisition cost and date of property and equipment items.

#### 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 NESSS and the ALMIS systems to track inventory. Field held OM&S is recorded in the Fleet Logistics 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 2005, updated as necessary to reflect the conditions noted in fiscal year 2006.

*Conditions:* We noted the following internal control weaknesses related to OM&S at the Coast Guard:

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- Internal controls over physical counts at field locations were not fully designed and implemented to remediate conditions identified during fiscal years 2003, 2004 and 2005. In fiscal year 2005, 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 these weaknesses continued to exist in fiscal year 2006, and represented their intent to complete corrective action over field held OM&S, to include implementation of internal controls, no later than September 30, 2009.
- 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 2006. 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 fully implemented in fiscal year 2005, and the Coast Guard has acknowledged that these weaknesses continued to exist in fiscal year 2006. Coast Guard management has represented their intent to implement corrective action over ICP physical inventory procedures, to include implementation of internal controls, no later than September 30, 2009.
- 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 no later than September 30, 2009.

*Cause/Effect:* Coast Guard management deferred correction of most OM&S weaknesses reported in fiscal years 2003 through 2005 until fiscal year 2007, and acknowledged that the conditions we reported in prior years remained throughout fiscal year 2006. 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 *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 Financial Systems Integrated Office (FSIO) 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 subsidiary ledgers to identify and correct discrepancies between the perpetual records and actual physical item counts at warehouse locations;

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- 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.

#### G. Legal and Other Liabilities

*Background:* The Department has legal claims totaling over \$10 billion made against it and its components at September 30, 2006. The Department's Office of General Council (OGC) has determined the probability of loss as "remote" on all claims except for a small fraction, less than 1 percent, of total claims which has been accrued as a liability in the financial statements. The dollar size and number of legal claims against the Department requires management, working with the OGC, to have a rigorous process in place and operating effectively to ensure that all legal cases are properly evaluated to determine the likelihood of loss, and liabilities are accrued and/or disclosed in the financial statements, consistent with generally accepted accounting principles, throughout the year.

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. As described in Comment I – *Budgetary Accounting*, reliable accounting processes surrounding the recording of obligations and disbursements, and tracking of UDOs are key to the accurate reporting of accounts payable in DHS' financial statements.

G&T uses its accounting services provider's grants management system to support G&T's grant making activities. The grants management system allows grantees to submit their financial status reports electronically via web-based connections. In addition, a majority of the grant programs that TSA administered have been transferred to G&T. TSA has retained responsibility for administering grants issued prior to 2004 until closeout, as well as certain other grant programs.

In addition to issuing significant grant awards each year, FEMA's mission assignment and flood insurance claims activities have increased considerably after the 2005 hurricane season.

*Conditions:* We noted the following internal control weaknesses related to legal and other liabilities (specifically accounts and grants payable):

1 OFM, in association with OGC, has not:

- Implemented adequate policies and procedures to ensure that OFM is provided with sufficient information to accurately and completely present legal liabilities and related disclosures in the financial statements throughout the year. We noted the following deficiencies with management's process:
  - OGC did not provide information to management or the auditors in a timely manner. Requests by the auditors to perform interim procedures were denied. We did not receive certain requested information on legal cases until mid-October 2006;
  - OGC did not provide complete responses for all cases, e.g., nature of the matter, progress of the matter to date, the governments planned response, etc., as requested by the CFO. Consequently, we were unable to complete our testing procedures on legal liabilities prior to the completion of the Department's 2006 PAR; and
  - The OFM did not perform an assessment of responses received by OGC, in sufficient detail to identify inadequacies before the information was provided to the auditor. OFM also made representations to the auditor that contingent legal liabilities were accurately and completely presented in the financial statements in accordance with GAAP, without a clear rationale for that representation other than the information

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provided by OGC, which, as described above, was not received timely and did not contain sufficient information for all cases.

#### 2 Coast Guard:

- Does not use a reliable methodology to estimate accounts payable. The method used was not supported as to the validity of data, assumptions, and criteria used to develop and subsequently validate the reliability of the estimate for financial reporting.
- Does not have adequate policies, procedures and internal controls over Coast Guard's process for reconciling military payroll recorded in the CAS general ledger to detail payroll records. Military personnel data changes, including changes in leave balances and payroll corrections, are not processed to be reflected in the appropriate payroll and/or reporting periods, and consequently impact the completeness and accuracy of leave and payroll accruals as well as data used for actuarial projections.
- Does not have documented policies and procedures, including appropriately designed internal controls, to ensure that the Coast Guard legal liabilities, included with the Department's accrued and disclosed contingent liabilities in the balance sheet at September 30, 2006, are accurate and complete. In addition, information is not prepared on a quarterly basis as necessary to prepare accurate timely financial statements throughout the year.

#### 3 G&T did not establish a reliable method, including validity of data and assumptions made, to estimate its grants payable [or advances] for accrual in the financial statements until the end of the fourth quarter of fiscal year 2006. The initial estimate contained errors that were discovered during our testwork and, when corrected, resulted in material adjustment to management's original estimate. G&T made the necessary corrections before the issuance of the year-end financial statements.

#### 4 TSA:

- Did not implement a new grant accrual methodology until August 2006, and the new methodology did not consider non-reporters. Therefore, the underlying expenditure data used in the accrual percentage and the actual expenditure data subsequently used for comparison/validation purposes may not be complete.
- Was unable to reconcile its annual leave subsidiary ledger to the general ledger during the year, creating an out-of-balance condition in July of approximately \$165 million.

#### 5 FEMA:

- Did not estimate and accrue accounts payable for all material open mission assignments at year-end. FEMA only accrued for mission assignments for which a payable confirmation had been received from the other Federal agency.
- Did not have fully effective policies and procedures to ensure that insurance company financial data collected through a third-party service provider was accurate and complete, affecting the reliability of its accounts payable balance as of September 30, 2006.

#### 6 FEMA 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*.

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#### *Cause/Effect:*

Coast Guard has not yet developed comprehensive policies and procedures or corrective action plans to address the conditions above, and consequently, management is unable to assert to the accuracy and completeness of accounts payable, payroll accruals, and legal liabilities recorded as of September 30, 2006.

G&T and its accounting services provider were in the process of formalizing the current year's grant accrual review process during the first three quarters of FY 2006, and as a result, had not yet performed sufficient analysis to ensure that the historical analyses and the related grant accrual calculations were accurate.

During fiscal year 2005, the majority of TSA's grant functions transferred to G&T, and TSA currently issues very few new grants. Because TSA is not considered a grant-making agency, the systems supporting grants do not provide for the level of sophistication needed to develop a robust grant accrual methodology.

FEMA did not perform an analysis to prepare an estimated accrual for related mission assignments because certain other Federal agencies did not provide payable confirmations. As a result, intragovernmental accounts payable is likely understated at September 30, 2006. Additionally, FEMA relies on its third-party service provider to collect reliable and complete data from the insurance companies participating in the flood insurance program.

At FEMA, G&T, and TSA, if grants are not appropriately monitored, it is possible that funding will not be used for its intended purpose.

*Criteria:* GAO 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."

Statement on Auditing Standards (SAS) No. 57 (AU 342.06) states "An entity's internal control may reduce the likelihood of material misstatements of accounting estimates. Specific relevant aspects of internal control include the following...Accumulation of relevant, sufficient, and reliable data on which to base an accounting estimate...Comparison of prior accounting estimates with subsequent results to assess the reliability of the process used to develop estimates."

OMB Circular A-133 states that grants should be monitored by the grant making organization.

*Recommendations:* We recommend that:

1. OFM:
  - a) Establish a time-table with OGC early in the year to perform quarterly updates of the legal cases, to ensure that interim period financial statements contain an accurate and complete presentation of legal liabilities;
  - b) Clearly define the type and extent of information needed from OGC on each case, to allow OFM to make an assertion on the completeness and accuracy of the financial statements. Both the CFO and auditor need to be provided with sufficient information, on each template, to understand the basis for the attorney's conclusion. Cases of greater significance, complexity, or liabilities that involve mathematical calculations may require an attachment to the template showing more detail to support the estimated liabilities and rationale for the attorney's conclusion. There should be a logical extension to the



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- conclusion (likelihood of unfavorable outcome) based on the information provided in the case template; and
- c) Perform a thorough assessment of the response received by OGC to determine the sufficiency of the information and maintain documentation of their analysis in sufficient detail to allow the auditor to reach the same conclusion as management, based on the facts stated in the attorney's response, or other documented evidence obtained by OFM.
2. Coast Guard:
- a) Analyze and make appropriate improvements to the methodology used to estimate accounts payable and support all assumptions and criteria with appropriate documentation to develop and subsequently validate the estimate for financial reporting;
- b) Implement corrective action, including appropriately designed and implemented internal controls, to support the completeness, existence and accuracy of changes in member personnel data records and military payroll transactions, and to include recorded accrued military leave and payroll liabilities; and
- c) Develop, document and implement formal policies and procedures, to include internal controls to verify and support management assertions of completeness and accuracy of the legal liability estimate and related disclosures on a quarterly basis.
3. G&T:
- a) Develop and implement policies and procedures to periodically validate the accuracy of the calculations used to derive the quarterly grant accrual, and should continue to improve and formalize its review process of the grant data files, specifically the completeness and accuracy of the information contained in the files;
- b) Perform independent reviews to ensure that all information included in the files is complete and that the correct amounts are recorded in the financial statements;
- c) Perform analyses over its grant portfolio to better understand the behavior of its grants in order to more accurately estimate its grant accrual;
- d) Work with DHS management to migrate G&T's general ledger and grants management system to a system maintained by a component within DHS; and
- e) The OGO should complete and formalize its policies and procedures for the financial monitoring process, and OGO staff should be made aware of these policies which should be strictly enforced. Policies should be established to ensure that OGO staff are able to complete all of the required documentation within the set timelines.
4. TSA:
- a) In coordination with G&T, implement monitoring procedures to ensure that grantees submit requests for reimbursement and related reports in a timely manner, and continue to refine its grant accrual methodology to properly consider grantees that do not submit requests for reimbursement in a timely manner (non-reporters); and
- b) Review the programming logic used by the service provider to summarize annual leave to be recorded in the general ledger. Make corrections where required to properly report the annual leave balance in the general ledger. Implement policies and procedures to periodically reconcile its annual leave subsidiary records to the general ledger.

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5. FEMA:
  - a) Establish procedures to coordinate with other federal agencies with outstanding mission assignments to provide a payable confirmation on a quarterly basis;
  - b) Develop and implement an estimation methodology to accrue for unpaid mission assignment services provided prior to the end of an accounting period if the other federal agency does not provide a payable confirmation; and
  - c) Work with its third-party service provider to clarify with the insurance companies the information that should be included with accounts payable, and to implement policies and procedures to ensure that consistent, reliable and complete accounts payable data is transmitted from the companies to the third-party service provider on a monthly basis.
6. FEMA and TSA implement policies and procedures to ensure full compliance with OMB Circular No. A-133.

#### H. Actuarial Liabilities

*Background:* The Coast Guard maintains pension, medical and post-employment travel benefit programs that require actuarial computations to record related liabilities 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 medical plan covers active duty, reservists, retirees / survivors and their dependents who are provided care at Department of Defense (DoD) medical facilities. The DoD invoices the Coast Guard for the cost of medical care as services are provided. The post-employment travel benefit program pays the cost of transportation for uniformed service members upon separation from the Coast Guard. A combined unfunded accrued liability of approximately \$27.2 billion for the plans is reported in the DHS balance sheet at September 30, 2006. Annually, participant and cost 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 financial statements is dependent on the accuracy and completeness of the underlying participant and cost data provided to the actuary.

*Conditions:* Coast Guard:

- Does not have adequate policies, procedures, and controls to ensure the completeness and accuracy of participant data, medical cost data, and trend and experience data provided to, and used by, the actuary for the calculation of the MRS pension, medical, and post employment transportation benefit liabilities. The Coast Guard:
  - Does not have complete policies to ensure that personnel data records are processed timely. During the month of August 2006, approximately 2,000 personnel changes were performed, some of which were more than three years old;
  - Did not follow standard operating procedures to extract and define personnel data used by the actuary in the experience study. Four out of 45 records we tested did not have supporting documentation; and
  - Submitted incomplete or inaccurate attribute data to the actuary. Of the records we reviewed; 200 active member data records did not contain a key attribute, e.g., date of initial entry to service; 10 records had invalid data, e.g., date of birth; 27 records had inappropriate object codes affecting personnel classification; 2 records had incorrect base pay; and 7 records were not supported by information in personnel files.



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- Has not performed timely or effective reconciliations between the medical expenditures subsidiary ledger and the general ledger, which would have identified errors in underlying data prior to the submission of data to the actuary.
- Did not have effective policies, procedures, and controls to review invoices from the DoD for medical care, e.g., proper pay rates, classification of participants, etc. Coast Guard could not resolve anomalies and errors in cost data provided to the actuary or reconcile files provided to the actuary to files presented to the auditors. Consequently, the Coast Guard did not identify errors in DoD billings that, over a period of several years, resulted in an overstatement of \$444 million of the fiscal year 2005 post-retirement medical liability and required DHS to restate its published 2005 financial statements. Further, more than six months after the errors were discovered, the Coast Guard has not implemented corrective actions and has not initiated a review of all invoices from other DoD military treatment facilities to validate the accuracy and completeness, or established procedures and controls to prevent similar errors from reoccurring. The Coast Guard does not have an established process to inform the actuary of Congressional legislation that changed allotments, entitlements, calculation methods, and amounts of military pay, which could materially affect the calculation of actuarial liabilities.

*Cause/Effect:* 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). The PSC does not perform a reconciliation of basic pay information provided to the actuary with actual disbursements recorded in the general ledger. As a result of weak policies, procedures and controls, the actuary was provided with erroneous data, and the problem was discovered too late in the year to recompute pension and other post-retirement liabilities. Consequently, the Coast Guard management is unable to provide assurance on the completeness and accuracy of actuarially determined liabilities as stated in the DHS balance sheet at September 30, 2006. In addition, the Coast Guard does not have sufficient controls to prevent overpayments to the DoD for medical services, and inaccurate medical costs submitted to the Coast Guard actuary could result in a misstatement of the actuarial medical liability and related expenses. Also, the conditions noted exist, in part, because of ineffective entity-level controls, in particular, with regard to financial management oversight – see Comment A – *Financial Management and Oversight*.

*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.

According to SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, paragraph 95, 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.

#### *Recommendations:*

We recommend that Coast Guard:

- a) Establish and document policies, procedures, and effective controls to ensure the completeness and accuracy of participant data, medical cost data, and trend and

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experience data provided to, and used by, the actuary for the calculation of the MRS pension, medical, and post employment travel benefit liabilities; perform an analysis of its personnel data IT 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 take corrective action regarding any data anomalies identified and consider the need to revise trend and experience data;

- b) Perform a periodic reconciliation between the medical expenditures recorded in the subsidiary ledger and those recorded in the CAS, and address differences before data is provided to the actuary. 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;
- c) Establish policies, procedures, and controls to review invoices received from the DoD for medical care 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). The Coast Guard should also verify that MTFs only bill for services provided to eligible Coast Guard participants and sponsors; and
- d) Establish a process to inform the actuary of Congressional legislation that changed allotments, entitlements, calculation methods, and amounts of military pay, which could materially affect the calculation of actuarial liabilities.

#### 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, DHS has over 300 separate Treasury fund symbols (TAFS), each with separate budgetary accounts that must be maintained in accordance with OMB and Treasury guidance. The TAFS cover a broad spectrum of budget authority, including annual, multi-year, and no-year appropriations; and several revolving, special, and trust funds. The DHS components discussed below account for more than 85 percent of all DHS TAFS. Accounting for budgetary transactions in a timely and accurate manner is essential to manage the funds of the Department and prevent overspending of allotted budgets.

Most of the DHS components estimate accounts payable at year-end as a percentage of UDOs based on historical trends. UDOs are obligations, or budgetary funds reserved, for good and services ordered but not yet delivered to DHS. At year-end, DHS reported over \$440 billion in UDOs. Reliable accounting processes surrounding obligations, UDOs, and disbursements are key to the accurate reporting of accounts payable in DHS' financial statements (see Comment G – *Legal and Other Liabilities*).

The majority of conditions cited below for Coast Guard are repeated from our fiscal year 2005 report. The Coast Guard has initiated a review of its obligation and procurement processes, including those related to the Integrated Deepwater System.

TSA's ability to monitor and account for its budgetary accounts, including UDOs and accurately estimate accounts payable is partially dependent on the Coast Guard as TSA's accounting service provider.

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FEMA budgetary accounts were significantly affected by a large increase in appropriated funds provided at the end of fiscal year 2005.

Consistent with ICE's multi-year CAP to address its internal control weakness, ICE has not fully implemented corrective actions over budgetary accounts, including UDOs. In addition, management is continuing to evaluate and validate the propriety of certain prior year obligations of the Federal Protective Service (FPS). Management was unable to assert to the completeness and validation of the UDO balances and, consequently, we were unable to complete our testing of FPS UDOs and the related effects on accounts payable and net position in fiscal year 2006.

While ICE performs accounting services for other DHS components, such as the Management Directorate and US-Visit, each component has certain responsibilities within the budgetary and disbursement process, e.g., the timely and accurate recording of obligations that they must perform, to ensure accurate overall financial reporting.

*Conditions:* We noted the following internal control weaknesses related to budgetary accounting, many of which were repeated from fiscal year 2005:

#### 1 Coast Guard:

- The policies, procedures and internal controls over Coast Guard's process for validation and verification of UDO balances are not effective to ensure that recorded obligations were valid, obligations incurred were recorded timely, and that proper approvals and supporting documentation is maintained. Coast Guard has not designed or implemented a comprehensive internal control program across all components of the organization to prevent or detect and correct misstatements to UDO balances reported on the financial statements. 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.
- 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 obligations.
- Procedures and controls are not adequate to prevent a commitment or obligation of funds in excess of established appropriations. While the Coast Guard did take action to correct this weakness during fiscal year 2006, the system edits could not be demonstrated to be fully functional during our engagement. In addition, the Coast Guard did not effectively monitor unobligated commitment activity in its procurement system. As of July 2006, there were over 17,000 unobligated commitment transactions totaling approximately \$442 million. In addition, the policy does not require all procurement units to fully utilize IT system controls, and therefore, Financial Procurement Desktop (FPD) users have the ability to create Purchase Requisition (PR) document numbers with less than the standard 16 characters/digits.
- FPD was also not properly reconciled to the 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. Obligations were recorded in FPD, but were not properly interfaced with the CAS, and were not supported by adequate documentation.
- Obligations related to post-employment permanent changes of station (PCS) were not recorded at the time orders were approved and issued.

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- Automated system controls are not effectively used to prevent the processing of procurement transactions by contracting officer's with expired warrant authority, and a manual compensating control was not effective since listings of warranted contracting officers were not complete.
- 2 TSA:
- Did not maintain, documentation supporting UDOs and related purchase information in a manner that is readily available to management and the auditors. Consequently, TSA was unable to provide sufficient documentation to support a sample of UDO balances at year-end prior to the completion of the DHS' 2006 PAR.
  - Has developed, but not fully implemented, IT system programming logic which allows the accounting system to record obligations recovered at the transaction level in accordance with SGL requirements.
- 3 FEMA:
- Does not have adequate resources to monitor the status and ensure the timely deobligation of mission assignments<sup>4</sup>, resulting in an overstatement of UDOs at the time of our testwork. In our June 30<sup>th</sup> and September 30<sup>th</sup> samples, we identified numerous exceptions that prevented us from concluding on the mission assignment portion of the UDO balance.
  - Did not maintain adequate communications with its grants disbursements service provider regarding the reliability of its internal controls. In fiscal year 2006, FEMA's grant disbursement service provider received a qualified opinion over the effectiveness of its internal controls for the period October 1, 2005, to June 30, 2006. However, FEMA was not aware of these control deficiencies until late October 2006, and consequently, payment information from the third-party service provider used to reduce obligations in its general ledger may not be accurate.
- 4 ICE has not completed its validation and verification of FPS prior year obligations, in order to determine the propriety of the completeness, existence, and accuracy of those obligations.
- 5 Management Directorate has not:
- Established policies and procedures to ensure that obligations are recorded timely. Specifically, in a sample of 45 items, we noted that (a) the period of performance was prior to the obligation being recorded in Federal Financial Management System (FFMS) for three samples items; (b) the invoice was received prior to the obligation being recorded in FFMS for three items, and (c) Intergovernmental Payments and Collections (IPAC)s were paid prior to the obligation being recorded in FFMS for two items; thus, it appears that services were rendered before the obligation was recorded in FFMS.
  - Established policies and procedures to ensure that all key attributes of an obligation and purchase are recorded in the financial accounting system. In a sample of 45 items, we noted that four purchases were not classified properly at the time of acquisition, e.g., as a good or service. Proper classification of the purchase is important for system controls to be effective at the time of receipt of the good or service and when estimating accounts payable.

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<sup>4</sup> In accordance with FEMA's National Response Plan (NRP), FEMA may require the assistance of other Federal agencies to assist with Disaster Relief, as needed. The NRA defines a Mission Assignment as the vehicle used by DHS/FEMA to engage and fund services of other Federal agencies to respond to a disaster or emergency declaration.

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- 6 US-Visit has not established policies and procedures to ensure that documentation supporting obligations and subsequent disbursements is filed and readily available for management and auditor review.

*Cause/Effect:*

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 2007. The Coast Guard also serves as TSA's accounting service provider; therefore, some financial accounting system and process weaknesses at the Coast Guard may affect TSA's accounting records as well. Further, TSA fund managers do not periodically reconcile and research outstanding obligation balances to determine their continued validity. FEMA's ability to monitor and manage mission assignments was significantly affected by resource limitations, and an exceptionally high volume of transactions related to significant hurricanes in 2005. In addition, FEMA did not maintain sufficient contact during the year with its third-party service provider for grant disbursements to ascertain that control weaknesses existed and were reported timely.

Weak controls in budgetary accounting, and associated contracting practices increase the risk that DHS and its components could violate the *Anti-deficiency Act* and overspend their budget authority. The financial statements are also at greater risk of misstatement. The untimely release of commitments may prevent funds from being used timely for other purposes.

*Criteria:* According to JFMIP's *Core Financial System Requirements*, an agency's core financial management system must ensure that an agency does not obligate or disburse funds in excess of those appropriated and/or authorized and specific system edits and user notifications related to funds control must be in place. The *Federal Acquisition Regulation (FAR)* Section 1.16 addresses the authorities and responsibilities granted contracting officers. Treasury's USSGL guidance specifies the accounting entries related to budgetary transactions.

According to OMB Circular No. A-123, "agency managers should continuously monitor and improve the effectiveness of internal control associated with their programs." This continuous monitoring, and other periodic evaluations, should provide the basis for the agency head's annual assessment of and report on internal control, as required by FMFIA. This Circular indicates that "control weaknesses at a service organization could have a material impact on the controls of the customer organization. Therefore, management of cross-servicing agencies will need to provide an annual assurance statement to its customer agencies in advance to allow its customer agencies to rely upon that assurance statement. Management of cross-servicing agencies shall test the controls over the activities for which it performs for others on a yearly basis. These controls shall be highlighted in management's assurance statement that is provided to its customers. Cross-servicing and customer agencies will need to coordinate the timing of the assurance statements."

FFMIA Section 803(a) requires that each Agency to implement and maintain a system that complies substantially with Federal financial management system requirements as stipulated by OMB Circular No.A-127.

FEMA's SOP for *Processing Mission Assignment and Interagency Payments for Fund Code 06*, April 2005, establishes the process for Mission Assignment (MA) closeouts. The quarterly review of unliquidated obligations (ULO) lists all MA obligations with an available balance. The Financial Information Analyst (FIA) or Accountant reviews the MA report or Mission Assignment Financial Information Tool Report and other internal records to track activity against the obligation. If no activity has been recorded within the last 90 days, the Disaster Finance Branch (DFB) initiates the closeout process, by sending the quarterly ULO report to the Region or Headquarters MA Coordinator (MAC) for action.



## Independent Auditors' Report

### Exhibit I – Material Weaknesses in Internal Control

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The FEMA Form 90-129, *Mission Assignment Agreement*, states in the description of work that the Other Federal Agency (OFA) is responsible for submitting a Mission Assignment Monthly Progress Report to FEMA to include cost data when MAs take more than 60 days to complete, including billing. The *Anti-deficiency Act* prohibits agencies from obligating or disbursing more than their appropriations and apportionments, has strict requirements for reporting violations, and includes penalties for violations. *GAO Standards* hold that transactions should be properly authorized, documented, and recorded accurately and timely.

*Recommendations:* We recommend that:

1. Coast Guard:
  - a) Improve policies, procedures, and controls related to processing obligation transactions, including 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;
  - b) 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;
  - c) Fully implement policies to ensure that contract awards are recorded in the general ledger in a timely manner;
  - d) 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;
  - e) 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;
  - f) While no violations were noted, consider activating the electronic edit checks in FPD to prevent incurring commitments and obligations in excess of appropriations and apportionment and allotment levels; 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. In addition, the Coast Guard should establish procedures to effectively monitor unobligated commitment activity and make timely adjustments, e.g., cancel or update, to reflect the status of commitments;
  - g) 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;
  - h) Implement procedures to ensure that obligations related to PCS are recorded at the time orders are approved and issued, and supporting documentation is maintained; and
  - i) Establish automated system controls to preclude the processing of procurement transactions if the contracting officer’s warrant authority had expired.
2. TSA:
  - a) Develop system tools that improve the process of identifying, summarizing, and reporting accounting transactions to allow for the timely identification and research of procurement and expenditure documentation;



## Independent Auditors' Report

### Exhibit I – Material Weaknesses in Internal Control

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- b) Retain all procurement and intragovernmental expense supporting source documentation in a manner that facilitates timely document retrieval;
  - c) Review outstanding obligations for validity on a periodic basis, and document this review; and
  - d) Continue to work with its accounting services provider to fully implement programming logic in CAS to capture and report prior year recoveries at the transaction level.
3. FEMA:
- a) Require all regional offices to perform a complete UDO review, monitor timely completion of this review, and ensure that all identified mission assignment deobligations are processed in the general ledger promptly;
  - b) Ensure that personnel follow the established policy for quarterly obligation reviews prior to the end of each quarter to timely determine whether the remaining balance on a mission assignment is valid, or whether a deobligation of the remaining balance is necessary;
  - c) Seek assistance from other components within DHS and/or contractors when additional administrative staffing resources are needed because of disaster situations; and
  - d) Establish procedures to periodically communicate with its third-party service provider for grant disbursements to ascertain if control weaknesses exist and are reported timely.
4. ICE complete its validation and verification of FPS prior year obligations and verify the completeness, existence, and accuracy of FPS recorded obligations.
5. Management Directorate:
- a) Redesign the procurement process, as necessary, and follow established procedures and 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;
  - b) Policies and procedures be followed to ensure that all key attributes of an obligation and purchase are recorded in the financial accounting system; and
  - c) Improve policies and procedures to ensure that documentation, including contracting officer approvals, is maintained to support all obligations.
6. US-Visit should follow existing procedures to ensure that undelivered orders are periodically verified and validated and that the Open Document File is a reliable source to compute the accounts payable estimate. In addition, documentation supporting obligations and subsequent disbursements is filed and available for management and auditor review.

## J. Intragovernmental Balances

*Background:* DHS conducts business with other Federal agencies resulting in intragovernmental receivables, payables, and the reporting of revenues, expenses and transfers 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 financial statements.

*Conditions:* In fiscal year 2005, we reported that DHS did not timely or completely reconcile intragovernmental balances with other Federal entities, particularly the DoD. Consequently, the

## Independent Auditors' Report

### Exhibit I – Material Weaknesses in Internal Control

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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 financial statements and in the Required Supplementary Information section of the financial statements, as required.

During fiscal year 2006, we noted that DHS did not take action to correct the conditions reported in 2005. OFM has not been able to reconcile intragovernmental asset, liability, and revenue amounts with trading partners, as required by OMB Circular No. A-136, as follows:

- OFM did not coordinate a DHS-wide reconciliation throughout the year of all intragovernmental balances. We noted that DHS, in cooperation with its components, have not developed and adopted effective policies and procedures, 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, cited below in 2006.
- The *Material Differences Reports* submitted to Treasury identified accounting/reporting errors of approximately \$1.4 billion in both the first and second quarter 2006. These differences were primarily related to activity with the following trading partners: 96-U.S. Army Corps of Engineers and 97-Office of the Secretary of Defense-Defense Agencies. These differences were not fully reconciled/ resolved by the following quarter.
- The third quarter *Material Differences Reports* submitted to Treasury identified approximately \$25.4 billion in material differences with trading partners, of which DHS indicated \$25.3 billion related to accounting/reporting errors. Upon investigation, OFM indicated that incorrect data was transmitted to Treasury and resulted in a substantial amount of the errors in the report. OFM has not been able to determine the cause of this incorrect file submission. We also note that as the third quarter Treasury *Material Differences Report* was based on erroneous information, additional trading partner differences may have been identified if accurate information had been provided to Treasury.

*Cause/Effect:* A lack of resources, and decisions by management to defer corrective action, lead to the lack of reconciliation of intragovernmental differences. OFM's corrective action plan indicates that these conditions will not be fully remediated until fiscal year 2008. 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 Federal Intragovernmental Transactions Accounting Policies Guide*, dated August 18, 2006 (TFITAPG) states that OMB Circular No. A-136, requires Federal CFO Act and non-CFO Act entities identified in the Treasury Financial Manual 2006, Vol. I, Part 2-Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*, perform quarterly reconciliations of intragovernmental activity/balances.

Per the TFITAPG, each quarter of Federal agencies are responsible for:

- Establishing and maintaining a structure for intragovernmental transactions (initiating, executing, recording, reconciling, and reporting procedures).
- Documenting and supporting the information recorded in the accounting records related to intragovernmental transactions.
- Recording activity between Federal entities at the transaction level.

## Independent Auditors' Report

### Exhibit I – Material Weaknesses in Internal Control

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- Providing intragovernmental balances (“F” transactions) for all proprietary USSGL accounts to FMS each quarter.
- Reconciling the intragovernmental data in the accounting records to the supporting documentation based on FMS IRAS Reports.
- Representing that all intragovernmental balances have been reconciled and that those balances are presented in the agency’s audited financial statements as instructed by OMB Circular No. A-136.
- Establishing a consistent relationship with their trading partners in order to identify and resolve differences.

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 4706, *Intragovernmental Activity/Balances*, requires reporting agencies to reconcile and confirm intragovernmental activity and balances quarterly for specific reciprocal groupings. 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:*

1. We recommend that DHS OFM:
  - a) Develop a Department-wide policy that requires the reconciliation of intragovernmental balances with trading partners in accordance with Treasury requirements;
  - b) Establish a formal documented review and approval process over reconciliation activities performed by OFM to ensure that all intragovernmental activity and balances are identified and differences are being resolved in a timely manner. Procedures should also include obtaining positive confirmation of balances with DHS trading partners;
  - c) Establish a relationship/point of contact with senior management of every trading partner to facilitate the resolution of differences on an on-going basis. For example, perform proactive reconciliation discussions with trading partners prior to the quarterly submissions of intragovernmental balances to Treasury;
  - d) Review the processes/logic used to generate the “F” transactions report and develop controls to ensure correct data is sent to FMS every quarter; and
  - e) Develop a correction action plan that will correct the conditions in fiscal year 2007.
2. We recommend that DHS OFM, 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.

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### Exhibit II – Other Reportable Conditions

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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 (SAFRs), batteries from aids to navigation, etc.

The Federal Law Enforcement Training Center (FLETC) maintains a number of SAFRs in at least four locations. FLETC also maintains facilities that contain lead-paint and asbestos.

*Conditions:* We noted the following internal control weaknesses related to DHS' environmental liabilities:

- 1 Coast Guard has not:
  - Implemented effective policies, procedures and systems that will ensure that its environmental liabilities are accurately and completely estimated and recorded in its financial statements. We noted that:
    - Coast Guard could not support the completeness and existence of the population of shore facilities, including lighthouses and SAFRs used to estimate the related portions of the liability. Site visits were not performed to verify completeness of lists of assets requiring clean-up;
    - The process and modeling techniques used to estimate the liability are not reliable. Generalized cost parameters and assumptions in the lighthouse and SAFR models are used in the absence of site-specific inspection and data. Changes in methodology are not documented, and multiple assumptions and cost parameters are used in models without sufficient evidence to support the assumptions;
    - Estimates are not always subsequently validated against historical costs, and detailed cost data that reconciles to the general ledger is not maintained; and
  - Implemented policies requiring quarterly procedures to determine if significant changes to the estimated liability are required for financial statement reporting.
- 2 FLETC has not:
  - Implemented effective policies and procedures to accurately and completely estimate its liabilities. Consequently, FLETC's liability for lead contamination at its SAFRs was substantially understated and required an adjustment to the financial statements at year-end.
  - Implemented a process to completely identify the existence of lead-paint and asbestos contamination, and to accurately estimate the cost of clean-up for financial statement purposes. The estimation process used in fiscal year 2006 was not supported by a detailed analysis that, among other things, considered the actual square footage of the contaminated area and the type of asbestos contamination.

*Cause/Effect:* Coast Guard has not developed consistent, written agency-wide policies to define the technical approach, cost estimation methodology, and overall financial management oversight of its environmental remediation projects, resulting in inconsistency in its estimates and possible misstatement of the liability in its financial statements. FLETC did not have policies and procedures in place whereby the Environmental and Safety Division would report the sites subject to clean-up, types of contamination, and the calculation of an estimated liability for asbestos-related clean-up costs.

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*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) Develop policies, procedures, processes and 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 and lighthouse/light station remediation projects. Perform a review of the population, historical and physical details, and regulatory requirements, to determine and document whether Coast Guard has an environmental liability associated with water-based firing ranges and ranges used by aircraft;
  - b) Implement policies and procedures to ensure the proper calculation and review of cost estimates for consistency and accuracy in financial reporting including the use of tested modeling techniques, use of verified cost parameters, and assumptions. The methodologies used should be documented with sufficient evidence maintained to support the assumptions used. Specifically, we recommend that the Coast Guard
    - i) Collect scope and cost data relating to actual/historical lighthouse and SAFR reviews and remediation, and improve, verify, and validate the cost model based on the data; and
    - ii) Conduct site visits to collect and document data related to the current lighthouses and SAFRs to determine that the input to the modeled estimates accurately reflects known conditions and to validate assumptions used in the estimates.
  - c) Estimates should be periodically validated against historical costs, and detailed cost data should be maintained and reconciled to the general ledger, in order to:
    - i) Identify and document the source data for all historical vessel cleanup costs used in the average cost per foot calculation for the vessels portion of the environmental liability, and reconcile the data to the Coast Guard general ledger(s); and



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### Exhibit II – Other Reportable Conditions

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- ii) Perform an analysis of the disparities between the written vessel cleanup cost estimates and the calculated average cost-per-foot estimates in order to determine the cause and the appropriate estimates.
  - d) Document and implement an internal control program to install appropriate financial management oversight, segregation of duties and management review, as well as a training program for cost estimators and reviewers.
2. FLETC:
- a) Provide detailed training on the accounting requirements for environmental liabilities to personnel in the FLETC Facilities Management and Environmental and Safety Division; and
  - b) Establish policies and procedures to identify the type and extent of all potential environmental contamination develop an estimate of all environmental liabilities, and update the estimates quarterly. The estimate should be a product of a detailed analysis utilizing verifiable assumptions and cost data that are documented and available for review by the auditor.

#### L. Custodial Revenue and Drawback

*Background:* CBP collects approximately \$28 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 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.

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. To measure the effectiveness of this risk-based control approach, CBP uses a technique known as the Compliance Measurement Program (CMP), which is essentially a control self-assessment. The CMP is also used to compute the “revenue gap” that is disclosed in DHS’ 2006 PAR, as described by SFFAS No. 7, *Accounting for Revenue and Other Financing Sources* and 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.

In-bond entries occur when merchandise is transported through one port; however, the merchandise does not officially enter U.S. commerce until it reaches the intended port of origin. An In-bond also allows foreign merchandise arriving at one U.S. port to be transported through the U.S. and be exported from another U.S. port without the payment of duty. In 1998, CBP implemented a tracking and audit system within the Automated Commercial System (ACS).

*Conditions:* We noted the following internal control weaknesses related to custodial activities at CBP:



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### Exhibit II – Other Reportable Conditions

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#### Related to drawback:

- The ACS lacked automated controls to detect and prevent excessive drawback claims and over-payments, necessitating inefficient manual processes that do not effectively compensate for these automated controls. ACS did not have the capability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries or export documentation upon which the drawback claim was based. 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.
- ACS lacked controls to prevent overpayment of drawback claims at the summary line level that were subject to the new deem liquidation process put in place during fiscal year 2006. Specifically, we noted approximately \$387K of overpayments. Also during fiscal year 2006, we noted a claim that was disbursed by accelerated payment in a prior year that was subsequently paid again during fiscal year 2006.
- CBP drawback review policy and procedures allowed drawback specialists, with supervisory approval, to judgmentally decrease the number of ACS selected underlying consumption entries randomly selected for review, thus decreasing the review's effectiveness.
- The initial period for document retention related to a drawback claim is only 3 years from the date of payment. However, there are several situations that could extend the life of the drawback claim well beyond those 3 years.

#### Related to the entry process – collection of taxes, duties and fees, and CMP:

- Policies, procedures, and general guidance provided to CMP coordinators related to sampling, review procedures, and documentation requirements for the monthly review of CM results are weak. Consequently, we noted a number of instances of non-compliance with CMP guidelines, inconsistencies in CMP review performance, and a lack of documentation to confirm performance of the monthly reviews. In addition, CBP policies allow the Import Specialist up to 120 days to input results of CMP reviews, which may interfere with CBP's timely review of CMP results.
- The National Analysis Specialist Division (NASD) port audits were no longer performed during FY 2006. Instead, CBP-HQ relies on the Self-Inspection program to determine how the ports are performing the CM examinations. We also noted that questions on the self-inspection program worksheets do not provide the equivalent information that the twenty-five point port audit review provided.
- CBP lacks formal policies and procedures to ensure the CM data used for analysis and to compute the revenue gap is accurately and completely input into the IT system.

#### Related to BW, FTZ, and In-bond:

- We noted inconsistencies in the performance of risk assessments and compliance reviews of BWs, and FTZs, and in-bond entries in various ports. In addition, HQ review of the assessment results can take up to 6 months to compile and analyze.
- CBP has not implemented a CMP to measure the revenue gap and effectiveness of controls over trade compliance related to the In-bond process.

*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

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owed to the Federal government, and securing the U.S. borders from potential terrorist entry. While these mission objectives do overlap somewhat, there are differences in how resources are deployed. In fiscal year 2006, CBP made significant improvements in its custodial review controls and measurement processes, procedures and policies. 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 fully developed or implemented that will ensure reliable, timely reviews and tracking of the BWs, FTZ, and In-bond.

*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. OMB 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;
- b) Implement automated controls within ACS to prevent overpayment of a drawback claim that is subject to deem-liquidation as well as automated controls to prevent duplicate payments of refund claim;
- c) Evaluate the effectiveness of the sampling methodology implemented in FY 2006 related to underlying consumption entries;
- d) The updated sampling methodology should not allow for the drawback specialists, with supervisory approval, to judgmentally decrease the number of ACS selected underlying consumption entries randomly selected for review; and
- e) Continue to work with the U.S. Congress to lengthen the required document retention period for all supporting documentation so that it corresponds with the drawback claim life cycle.

Related to entry and CMP:

- a) Provide additional detail in the guidelines, specifying the sample size, procedures to perform, and documentation requirements for the CM Coordinator's review of Import

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Specialists' review. The guidance should also readdress the timing requirements for the monitoring reports or data queries and documentation retention;

- a) Conduct periodic training to ensure that all port personnel have comprehensive knowledge of the CM program requirements;
- b) Formalize and implement effective procedures for the port audit process performed by NASD, or readdress the self-inspection program to provide a more comprehensive and in-depth review of port activity (similar to what was accomplished under the previously performed port audits), including ensuring that the port is performing the reviews accurately;
- c) Decrease the allowable time frame for final Import Specialist Discrepancy Adjustment (ISDA) remarks to allow for more timely analysis of the results; and
- d) Establish an effective means of communication between the Office of Field Operations and Office of Strategic Trade to ensure data quality issues are timely addressed.

Related to BW, FTZ, and In-bond:

- a) Ensure adequate communication of the ports requirements related to the annual risk assessments and compliance reviews and provide effective training so that all responsible personnel are aware of and can consistently execute all of the requirements;
- b) Implement an electronic survey to be received and completed by the ports and sent back to HQs in order to ensure timely response and review by HQ personnel; and
- c) Consider the cost/effectiveness of implementing a CMP (such as a revenue gap calculation) over In-bond to assess the risk of revenue loss and violations of trade regulations by importers.

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### Exhibit III – Compliance and Other Matters

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(Findings A – J and K – L are presented in Exhibits I and II, respectively)

All of the compliance and other matters described below are repeat conditions, except Comment T – *Debt Collection Improvement Act*, which is new finding in fiscal year 2006.

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

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 2006, 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 as required by the *DHS Financial Accountability Act of 2004*. In addition, DHS launched and obtained OMB approval of a multi-year plan for implementation of OMB Circular No. A-123. The OCFO required the components to implement certain processes and undergo a self evaluation of some entity level controls and a review of the design of controls over Department-wide Financial Reporting, Fund Balance with Treasury and other select processes.

While we noted these positive steps toward full compliance with FMFIA and OMB Circular No. A-123, some components still have not established effective systems, processes, policies, and procedures to develop and implement internal accounting and administrative controls, and conformance of accounting systems.

*Recommendations:* We recommend that DHS components fully implement the FMFIA process, as prescribed by the OCFO, to ensure full compliance with FMFIA in accordance with its OMB approved plan. We also recommend that the OCFO consider additional training for its components, to ensure a thorough understanding of requirements.

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

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. FFMIA Section 803(a) requires that agency Federal financial management systems comply with (1) Federal accounting standards, (2) Federal system requirements, and (3) the USSGL at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability. We noted that DHS and each significant component 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. The Secretary of DHS also has stated in the Secretary's Letter of Assurance dated November 15, 2006, listed in section I – MD&A of the accompanying 2006 PAR that the Department cannot provide assurance that its financial management systems are in substantial compliance with FFMIA. The Department's remedial actions and related timeframes are also presented in that section of the PAR.

*Recommendations:* We recommend that DHS improve its processes to ensure compliance with the FFMIA in fiscal year 2007.

#### **O. Federal Information Security Management Act of 2002 (FISMA)**

DHS is required to comply with the FISMA, which was enacted as part of the *Electronic Government Act of 2002*. FISMA requires the head of each agency to be responsible for (1) providing information security protections commensurate with the risk and magnitude of the harm resulting from unauthorized access, use, disclosure, disruption, modification, or destruction of (i) information

## Independent Auditors' Report

### Exhibit III – Compliance and Other Matters

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collected or maintained by or on behalf of the agency, and (ii) information systems used or operated by an agency or by a contractor of an agency or other organization on behalf of an agency; and (2) complying with the requirements of this subchapter and related policies, procedures, standards, and guidelines, including information security standards promulgated under section 11331 of Title 40. This particular section requires that Federal agencies provide minimum information security requirements as defined by the NIST. We noted instances of non-compliance with FISMA that have been reported by us in Appendix I within Comment C– *Financial Systems Security*.

*Recommendations:* We recommend that DHS follow the recommendations provided in Appendix I, Comment C – *Financial Systems Security*, and fully implement the requirements of FISMA in fiscal year 2007.

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

FEMA and TSA, are required to comply with certain provisions of OMB Circular No. A-133. This Circular requires agencies awarding grants to ensure they receive grantee reports timely and to follow-up on grantee Single Audit findings.

Additionally, OMB Circular No. A-50, as revised, provides policies and procedures for use by executive agencies when considering reports issued by Inspectors General, 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 DHS did not have procedures in place to fully comply with provisions in OMB Circular No. A-133 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. Because Single Audits typically are performed by other entities outside of DHS, procedures related to these reports are not always entirely within the control of DHS and its components.

DHS and its components did not fully develop and implement corrective action plans to address all material weaknesses and reportable conditions identified by previous financial statement audits within the time-frames established in OMB Circular No. A-50. 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. FEMA and TSA develop and implement department-wide polices and procedures to ensure compliance with OMB Circular No. A-133, including the identification of which components must comply. Until policy guidance is received from DHS management, grant-making components should perform the following in fiscal year 2007:
  - 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) Strengthen communication with the cognizant agencies;
  - c) Use the tracking system to ensure audit and performance reports are received timely, or to follow-up when reports are overdue; and
  - d) Perform reviews of grantee audit reports, issue related management decisions, and ensure that the grantees take appropriate corrective action, on a timely basis.



## Independent Auditors' Report

### Exhibit III – Compliance and Other Matters

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2. DHS OFM should develop policies and procedures, including the adoption of Management Directive, and the development of a process to ensure that audit recommendations are resolved timely, and corrective action plans addressing all DHS audit findings are developed and implemented together with appropriate supervisory review in fiscal year 2007.

#### **Q. *Improper Payments Information Act of 2002 (IPIA)***

DHS is required to comply with the *Improper Payments Information Act of 2002* (the Act or IAIP). 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 fully comply with the Act in fiscal year 2006.

We noted the following instances of non-compliance with the Act at DHS and its components.

- Not all programs subject to the Act were tested, and the population of disbursements tested for some programs was not complete.
- In some cases, the samples tested were not statistically derived, and thus, identified errors could not be statistically projected to the entire population of disbursements (including the untested portion).
- In some cases, the personnel performing the testwork were not knowledgeable or trained on the purpose or procedures to be performed.
- The time-period from which disbursements were selected for testwork was not always in compliance with IPIA requirements. For example, we noted that one component limited the time-period of disbursement samples to October 2005 to March 2006.
- Centralized monitoring was not performed over the IPIA results to ensure that IPIA testing was completed for all required programs in accordance with the Department's requirements.

*Recommendation:* We recommend that DHS follow the guidance provided in OMB M-03-13 in fiscal year 2007, including completing the necessary susceptibility assessments, performing testwork over all material programs, and instituting sampling techniques to allow for statistical projection of the results of its improper payments testing.

#### **R. *Chief Financial Officers Act of 1990***

The *DHS Financial Accountability Act of 2004* 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-OIG has engaged an independent auditor to audit the September 30, 2006, balance sheet and statement of custodial activity only. DHS must be able to represent that its balance sheet is fairly stated, and obtain at least a qualified opinion, before it is practical to extend the audit to other financial statements.

*Recommendation:* We recommend that DHS and its components continue to implement corrective action plans in order to remediate the fiscal year 2006 material weaknesses and reportable conditions, improve its policies, procedures, and processes, as necessary, to allow management to represent that



**Independent Auditors' Report**  
**Exhibit III – Compliance and Other Matters**

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its balance sheet is free of material error and ready for an independent audit of the balance sheet. This will enable DHS to extend its audit to all financial statements in future years.

**S. Government Performance and Results Act of 1993 (GPRA)**

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 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 validation and verification section of the fiscal year 2006 DHS *Annual Performance Plan* was incomplete and included erroneous data. In addition, no performance goals or measures were established or aligned to two of the Department's strategic objectives in the *Annual Performance Plan*. GPRA states that an agency may not omit or minimize the significance of any program activity constituting a major function or operation for the agency. We also noted that management did not adequately review the PAR for accuracy and completeness.

*Recommendation:* We recommend that DHS develop policies and procedures to ensure full compliance with GPRA by aligning all strategic objectives to performance objectives in fiscal year 2007.

**T. Debt Collection Improvement Act of 1996 (DCIA)**

The *Debt Collection Improvement Act of 1996* (DCIA) is intended to significantly enhance the Federal Government's ability to service and collect debts. Under the DCIA, Treasury assumes a significant role for improving government-wide receivables management. The DCIA requires Federal agencies to refer eligible delinquent non-tax debts over 180 days to U.S. Treasury for the purpose of collection by cross-servicing or the offset program. Our tests of compliance disclosed instances where DHS was not in compliance with certain provisions of the DCIA. Specifically, we noted that due process is not performed in a timely manner to ensure that some eligible debts are forwarded to Treasury for cross-servicing or the offset program within the timeframes established by DCIA.

*Recommendation:* We recommend that DHS develop policies and procedures to ensure full compliance with the DCIA in fiscal year 2007.

**Independent Auditors' Report  
Exhibit IV – Status of Prior Year Findings**

Summary of Conditions As Reported in 2005 DHS Performance and Accountability Report	Fiscal Year 2006 Status/Disposition
<b>Material Weaknesses:</b>	
<b>A. Financial Management and Oversight</b>	
<p><b>A.1</b> ICE had 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. We noted that ICE did not have sufficient numbers of qualified financial managers and staff to perform its accounting responsibilities. ICE had difficulty; performing analysis of and record basic and routine accounting entries; correctly apply Federal accounting standards, in many instances, to ensure accurate and reliable financial reporting; 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 establishing adequate internal controls that reasonably ensured the integrity of financial data, and that adhered to Government Accountability Office (GAO) <i>Standards for Internal Control in the Federal Government (Standards)</i>. ICE 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.</p>	<b>Corrected</b>
<p><b>A.2</b> The Coast Guard had 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. The Coast Guard had 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. The Coast Guard had 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.</p>	<b>Repeated</b>

**Independent Auditors' Report**  
**Exhibit IV – Status of Prior Year Findings**

<p style="text-align: center;"><u>Summary of Conditions</u>  <u>As Reported in 2005 DHS Performance and Accountability Report</u></p>	<p style="text-align: center;"><b>Fiscal Year 2006</b>  <b>Status/Disposition</b></p>
<p><b>A.3</b> 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. The OCFO had not 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 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 <i>DHS Performance and Accountability Report (PAR)</i>, 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.</p>	<p style="text-align: center;"><b>Partially Repeated</b></p>
<p><b>B. Financial Reporting</b></p>	<p style="text-align: center;"><b>Repeated</b></p>
<p><b>B.1</b> The OCFO was unable to prepare a balanced consolidated financial statement during fiscal year 2005 until November 2005. The OCFO had not fully documented policies and procedures for many critical activities necessary to adequately manage financial reporting processes, and monitoring controls to ensure monthly TIER submissions received from the components were prepared timely and accurately.</p>	<p style="text-align: center;"><b>Repeated</b></p>
<p><b>B.2</b> The Coast Guard's 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). Significant abnormal balances existed in its TIER submissions. 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.</p>	<p style="text-align: center;"><b>Repeated</b></p>

## Independent Auditors' Report Exhibit IV – Status of Prior Year Findings

<u>Summary of Conditions As Reported in 2005 DHS Performance and Accountability Report</u>	<u>Fiscal Year 2006 Status/Disposition</u>
<p><b>B.3</b> ICE had 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. ICE had inadequately designed the processes for some account reconciliations. 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.</p>	<b>Corrected</b>
<p><b>B.4</b> 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.</p>	<b>Repeated</b>
<p><b>B.5</b> 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, <i>Managerial Cost Accounting Concepts and Standards</i>. 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.</p>	<b>Partially Repeated</b>
<p><b>B.6</b> G&amp;T (formerly SLGCP) had 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.</p>	<b>Partially Repeated</b> (Comment G)
<p><b>B.7</b> EPR was unable to make an accurate estimate of accounts payable related to the NFIP because EPR’s contractor for the National Flood Insurance Program (NFIP) did not provide final NFIP financial statements until after the time that final EPR fiscal year 2005 financial statement balances had been submitted to the OCFO.</p>	<b>Corrected</b>

IV. 3

(continued)

**Independent Auditors' Report  
Exhibit IV – Status of Prior Year Findings**

Summary of Conditions As Reported in 2005 DHS Performance and Accountability Report	Fiscal Year 2006 Status/Disposition
<p><b>C. Financial Systems Functionality and Technology</b></p> <p>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.</p>	<b>Repeated</b>
<p><b>D. Fund Balance with Treasury (FBwT)</b></p> <p><b>D.1</b> 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 did not timely clear items carried in suspense clearing accounts during the year and the subsidiary ledger that contained detail listings of suspense transactions was not reconciled to the general ledger. ICE 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. ICE 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.</p>	<b>Corrected</b>
<p><b>D.2</b> The 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, and did not maintain adequate supporting documentation that validated the accuracy of the FBwT reconciliations and the clearing of suspense items.</p>	<b>Repeated</b>

IV. 4

(continued)



**Independent Auditors' Report  
Exhibit IV – Status of Prior Year Findings**

<b>Summary of Conditions As Reported in 2005 DHS Performance and Accountability Report</b>		<b>Fiscal Year 2006 Status/Disposition</b>
<b>E. Property, Plant, and Equipment</b>		<b>Repeated</b>
<b>E.1</b>	The Coast Guard had 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. The Coast Guard had not consistently applied policies and procedures to ensure appropriate documentation supporting PP&E acquisitions is maintained, and readily available for audit. The Coast Guard lacked methodologies and assumptions to support the value of PP&E that is not supported by original acquisition or other documentation. The Coast Guard needed an asset identification, system mapping, and tagging processes that included sufficient detail, e.g., serial number, to clearly differentiate and accurately track assets in the fixed asset system. The Coast Guard lacked an effective physical inventory process and appropriate support for the valuation method and classification of repairable PP&E to ensure accounting and reporting for PP&E is consistent with generally accepted accounting principles.	
<b>E.2</b>	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.	<b>Partially Repeated</b>
<b>F. Operating Materials and Supplies</b>		<b>Repeated</b>
<b>F.1</b>	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. OM&S 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. Processes and controls were not in place to fully support the calculated value of field-held and ICP OM&S to approximate historical cost. Policies, procedures and controls designed to remediate conditions related to conducting physical inventories of OM&S at the ICPs were not completely implemented.	

IV. 5

(continued)



**Independent Auditors' Report  
Exhibit IV – Status of Prior Year Findings**

<u>Summary of Conditions As Reported in 2005 DHS Performance and Accountability Report</u>	<u>Fiscal Year 2006 Status/Disposition</u>
<b>G. Undelivered Orders, Accounts and Grants Payable, and Disbursements</b>	
<b>G.1</b> ICE had not established reliable internal controls to ensure that all invoices are paid timely, that all IPACs were 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. ICE had not 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, or 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. ICE lacked policies related to verification and validation of obligations and completeness of all procurement and other obligations.	<b>Corrected</b>
<b>G.2</b> At the Coast Guard 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. 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 UDOs were properly recorded. Policies were not fully implemented to ensure that contract awards were recorded in the general ledger in a timely manner. Policies and procedures related to Coast Guard's automated requisition and procurement process have not been consistently followed in all regions. The procurement Management Effectiveness Assessment (MEA), was not fully performed as planned in fiscal year 2005. The process used to estimate accounts payable was not fully documented as to the criteria used to develop the estimate for financial reporting.	<b>Repeated</b>
<b>G.3</b> G&T's accounting services provider was unable to resolve discrepancies identified in the data underlying the calculation of G&T's grants payable liability at September 30, 2005.	<b>Partially Repeated</b>
<b>G.4</b> TSA was unable to fully reconcile and support the accuracy and completeness of its accounts payable and UDOs, and did not have policies and procedures in place to validate TSA's grant accrual to ensure the methodology used provided a reasonable estimate of the actual amount owed.	<b>Partially Repeated</b>

**Independent Auditors' Report  
Exhibit IV – Status of Prior Year Findings**

<b>Summary of Conditions As Reported in 2005 DHS Performance and Accountability Report</b>	<b>Fiscal Year 2006 Status/Disposition</b>
<p><b>G.5</b> EPR, G&amp;T, and TSA did not have sufficient policies and procedures in place to fully comply with the OMB Circular No. A-133, <i>Audits of States, Local Governments, and Non-profit Organizations</i>, and laws and regulations supporting OMB Circular No. A-50, <i>Audit Follow-up</i>, as revised.</p>	<b>Partially Repeated</b>
<p><b>H. Actuarial Liabilities</b></p>	<b>Repeated</b>
<p><b>H.1</b> 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. The Coast Guard did not follow established policies and procedures to accumulate data for the actuary to compute post-employment travel benefits. The Coast Guard did not perform periodic reconciliations between the medical expenditures subsidiary ledger and the general ledger. The Coast Guard 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.</p>	<b>Repeated</b>
<p><b>I. Budgetary Accounting</b></p>	<b>Partially Repeated</b>
<p><b>I.1</b> At ICE obligations for ICE and the DHS-ICE components were not always recorded timely or accurately. Contracting officer approvals were not clearly documented on obligating documents. 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.</p>	<b>Partially Repeated</b>

IV. 7

(continued)

**Independent Auditors' Report**  
**Exhibit IV – Status of Prior Year Findings**

<p style="text-align: center;"><u>Summary of Conditions</u>  <u>As Reported in 2005 DHS Performance and Accountability Report</u></p>	<p style="text-align: center;"><b>Fiscal Year 2006</b>  <b>Status/Disposition</b></p>
<p><b>I.2</b> At the 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. 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. 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.</p>	<p style="text-align: center;"><b>Repeated</b></p>
<p><b>I.3</b> 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 USSGL requirements.</p>	<p style="text-align: center;"><b>Repeated</b></p>
<p><b>J. Intragovernmental and Intradepartmental Balances</b></p> <p>DHS did not timely or completely reconcile intragovernmental balances with other Federal entities, particularly the Department of Defense during fiscal year 2005. Consequently, the DHS' <i>Material Difference/Status of Disposition Certification Report</i>, submitted to Treasury for September 30, 2005, showed material differences attributable to accounting/reporting errors. Some components had not developed and adopted effective SOPs, or established systems to completely track, confirm, and reconcile intragovernmental balances and/or transactions with trading partners, in a timely manner, which contributed to the material differences. Intra-DHS transactions between ICE, CBP, CIS and other DHS components did not eliminate correctly at the consolidated level during the year. 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.</p>	<p style="text-align: center;"><b>Partially Repeated</b></p>

**Independent Auditors' Report  
Exhibit IV – Status of Prior Year Findings**

	<u>Summary of Conditions As Reported in 2005 DHS Performance and Accountability Report</u>	<u>Fiscal Year 2006 Status/Disposition</u>
<b><i>Other Reportable Conditions:</i></b>		
<b>K. Environmental Liabilities</b>		
<b>K.1</b>	At the 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.	<b>Repeated</b>
<b>K.2</b>	At S&T, policies and procedures have not been developed to determine if an environmental liability exists and if so, to accurately estimate and record an environmental liability for the cost of cleanup.	<b>Corrected</b>
<b>K.3</b>	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. 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. A lack of communication existed throughout the organization, related to the requirements associated with environmental liabilities and weaknesses in documentation of data supporting the computation of liability for financial statement purposes.	<b>Corrected</b>
<b>L. Custodial Revenue and Drawback</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.	<b>Partially Repeated</b>
<b><i>Compliance and Other Matters:</i></b>		
<b>M. 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.	<b>Partially Repeated</b>

Independent Auditors' Report  
Exhibit IV – Status of Prior Year Findings

Summary of Conditions As Reported in 2005 DHS Performance and Accountability Report	Fiscal Year 2006 Status/Disposition
<p><b>N. Federal Financial Management Improvement Act of 1996</b> 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.</p>	<p><b>Repeated</b></p>
<p><b>O. Federal Information Security Management Act (Electronic Government Act of 2002)</b> Instances of non-compliance with the FISMA were noted.</p>	<p><b>Partially Repeated</b></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</b></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</b></p>
<p><b>R. DHS Financial Accountability Act of 2004 (Chief Financial Officers Act of 1990)</b> Section 3 of Public Law 108-330, <i>DHS Financial Accountability Act of 2004</i>, 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. At September 30, 2005 DHS was operating with an Acting CFO, while no waiver or amendment to this law has been obtained by DHS management. The <i>DHS Financial Accountability Act of 2004</i> also made DHS subject to the <i>Chief Financial Officers Act of 1990</i>, 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.</p>	<p><b>Partially Repeated</b></p>

**Independent Auditors' Report**  
**Exhibit IV – Status of Prior Year Findings**

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**S. *Government Performance and Results Act of 1993***

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.

**Repeated**

IV. 11



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



**Homeland  
Security**

**November 15, 2006**

**MEMORANDUM FOR:** Richard L. Skinner, Inspector General

**FROM:** David L. Norquist, Chief Financial Officer 

**SUBJECT:** FY 2006 Financial Statement Audit

This memo is our response to the Independent Public Accountant's audit of our balance sheets as of September 30, 2006 and 2005, and the related statement of custodial activities for the year ended September 30, 2006. We agree with the Independent Public Accountant's conclusions.

I would like to personally acknowledge and commend the efforts and dedication by you, the OIG staff, and the Independent Public Accountant in working with the Department to improve financial management. The auditor's report on internal controls and compliance cites continued and serious challenges. As you know from our meetings on this subject, since my arrival at the Department I have made corrective actions my highest priority as Chief Financial Officer. I have redoubled the efforts of the Department and our staff to this end.

In early fiscal year 2007 we will publish DHS' unified corrective action plans in a document entitled, the *Internal Controls over Financial Reporting (ICOFR) Playbook*. The ICOFR Playbook will implement a single, comprehensive, and integrated plan to organize and focus corrective action efforts across the Department. This work will be another significant step in the maturation of the Department, and our ability to perform our critical mission as efficiently and effectively as possible. Thank you for your support.

## Introduction

The principal financial statements included in this report are prepared pursuant to the requirements of the *Chief Financial Officers Act of 1990*, as amended by the *Government Management Reform Act of 1994*. Other requirements include the Office of Management and Budget (OMB) Circular Number A-136, *Financial Reporting Requirements*. 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 audit of the Balance Sheet and the Statement of Custodial Activity. The independent auditors' report accompanies the principal financial statements. These financial statements include the following:

- The **Balance Sheets** present as of September 30, 2006 and 2005, those resources owned or managed by DHS which represent future economic benefits (assets); amounts owed by DHS that will require payments from those resources or future resources (liabilities) and residual amounts retained by DHS comprising the difference (net position).
- The **Statements of Net Cost** present the net cost of DHS operations for the fiscal years ended September 30, 2006 and 2005. DHS net cost of operations is the gross cost incurred by DHS less any exchange revenue earned from DHS activities.
- The **Statements of Changes in Net Position** present the change in DHS' net position resulting from the net cost of DHS operations, budgetary financing sources, and other financing sources for the fiscal years ended September 30, 2006 and 2005.
- The **Statements of Budgetary Resources** present how and in what amounts budgetary resources were made available to DHS during fiscal years 2006 and 2005, the status of these resources at September 30, 2006 and 2005, the changes in the obligated balance, and outlays of budgetary resources for the fiscal years ended September 30, 2006 and 2005.
- The **Statements of Financing** present the reconciliation of the budgetary resources used to finance DHS operations with the net cost of operations for the fiscal years ended September 30, 2006 and 2005.
- The **Statements of Custodial Activity** present the disposition of custodial revenue collected and disbursed by DHS on behalf of other recipient entities for the fiscal years ended September 30, 2006 and 2005.

## Limitations of Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the Department, pursuant to the requirements of Title 31, United States Code, Section 3515 (b) relating to financial statements of Federal 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 agencies 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  
Balance Sheets  
As of September 30, 2006 and 2005  
(In Millions)**

(Page 1 of 2)

	<u>2006</u> (Unaudited)	<u>2005</u> (Unaudited) (Restated)
<b>ASSETS (Note 2)</b>		
<b>Intragovernmental</b>		
Fund Balance with Treasury (Notes 2 and 3)	\$59,568	\$97,012
Investments, Net (Note 5)	634	738
Accounts Receivable (Note 6)	248	217
Other (Note 13)		
Advances and Prepayments	2,912	2,937
Due from Treasury (Note 2)	411	144
<b>Total Intragovernmental</b>	<b>63,773</b>	<b>101,048</b>
Cash and Other Monetary Assets (Notes 2 and 4)	99	78
Accounts Receivable, Net (Notes 2 and 6)	1,181	532
Taxes, Duties, and Fees Receivables, Net (Notes 2 and 7)	1,755	1,400
Direct Loans, Net (Note 8)	161	-
Inventory and Related Property, Net (Note 9)	677	498
General Property, Plant, and Equipment, Net (Notes 2 and 11)	11,036	10,460
Other (Note 13)		
Advances and Prepayments	551	480
<b>TOTAL ASSETS</b>	<b>\$79,233</b>	<b>\$114,496</b>
Stewardship PP&E (Note 12)		
<b>LIABILITIES (Note 14)</b>		
<b>Intragovernmental</b>		
Accounts Payable	\$1,900	\$865
Debt (Note 15)	17,446	226
Other (Note 18)		
Due to the General Fund	1,809	1,434
Accrued FECA Liability	323	358
Other	187	252
<b>Total Intragovernmental</b>	<b>21,665</b>	<b>3,135</b>
Accounts Payable	2,765	3,253
Federal Employee and Veterans' Benefits (Note 16)	32,278	30,050
Environmental and Disposal Liabilities (Note 17)	245	179
Other (Notes 18, 19, 20, and 21)		
Accrued Payroll and Benefits	1,362	1,366
Deferred Revenue and Advances from Others	2,188	2,014
Deposit Liability	34	4,706
Insurance Liabilities	3,567	23,433

Department of Homeland Security Balance Sheets As of September 30, 2006 and 2005 (In Millions)		(Page 2 of 2)	
	<u>2006</u> (Unaudited)	<u>2005</u> (Unaudited) (Restated)	
Refunds and Drawbacks	5,593	118	
Other	1,190	958	
<b>Total Liabilities</b>	<b>\$70,887</b>	<b>\$69,212</b>	
Commitments and contingencies (Notes 19, 20, and 21)			
<b>NET POSITION</b>			
Unexpended Appropriations		\$87,131	
Unexpended Appropriations-Earmarked Funds (Note 22)	\$18		
Unexpended Appropriations-Other Funds	48,084		
Cumulative Results of Operations		(41,847)	
Cumulative Results of Operations-Earmarked Funds (Note 22)	(19,328)		
Cumulative Results of Operations-Other Funds	(20,428)		
<b>Total Net Position</b>	<b>\$8,346</b>	<b>\$45,284</b>	
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$79,233</b>	<b>\$114,496</b>	

The accompanying notes are an integral part of these statements.

Department of Homeland Security  
Statements of Net Cost  
For the Years Ended September 30, 2006 and 2005  
(In Millions)

(Page 1 of 2)

Directorates and Other Components (Note 24)	<u>2006</u> (Unaudited)	<u>2005</u> (Unaudited) (Restated)
<b>United States VISIT</b>		
Gross Cost	\$263	\$172
Less Earned Revenue	(1)	-
<b>Net Cost</b>	<b>262</b>	<b>172</b>
<b>United States Customs and Border Protection</b>		
Gross Cost	7,135	7,059
Less Earned Revenue	(153)	(619)
<b>Net Cost</b>	<b>6,982</b>	<b>6,440</b>
<b>United States Coast Guard</b>		
Gross Cost	10,011	9,145
Less Earned Revenue	(424)	(220)
<b>Net Cost</b>	<b>9,587</b>	<b>8,925</b>
<b>United States Citizenship and Immigration Services</b>		
Gross Cost	1,609	1,275
Less Earned Revenue	(1,729)	(1,622)
<b>Net Cost</b>	<b>(120)</b>	<b>(347)</b>
<b>Federal Emergency Management Agency</b>		
Gross Cost	25,660	39,643
Less Earned Revenue	(2,443)	(2,159)
<b>Net Cost</b>	<b>23,217</b>	<b>37,484</b>
<b>Federal Law Enforcement Training Center</b>		
Gross Cost	312	257
Less Earned Revenue	(33)	(31)
<b>Net Cost</b>	<b>279</b>	<b>226</b>
<b>Preparedness Directorate</b>		
Gross Cost	3,795	2,701
Less Earned Revenue	(26)	(20)
<b>Net Cost</b>	<b>3,769</b>	<b>2,681</b>
<b>United States Immigration and Customs Enforcement</b>		
Gross Cost	4,487	3,814
Less Earned Revenue	(857)	(642)
<b>Net Cost</b>	<b>3,630</b>	<b>3,172</b>
<b>United States Secret Service</b>		
Gross Cost	1,471	1,505
Less Earned Revenue	(18)	(22)
<b>Net Cost</b>	<b>1,453</b>	<b>1,483</b>
<b>Science and Technology Directorate</b>		
Gross Cost	843	743
Less Earned Revenue	-	(12)
<b>Net Cost</b>	<b>843</b>	<b>731</b>

Department of Homeland Security Statements of Net Cost For the Years Ended September 30, 2006 and 2005 (In Millions)		(Page 2 of 2)
Directorates and Other Components (Note 24)	<u>2006</u> (Unaudited)	<u>2005</u> (Unaudited) (Restated)
<b><i>Transportation Security Administration</i></b>		
Gross Cost	6,043	6,523
Less Earned Revenue	<u>(2,477)</u>	<u>(2,255)</u>
<b>Net Cost</b>	<b><u>3,566</u></b>	<b><u>4,268</u></b>
<b><i>Department Operations and Other</i></b>		
Gross Cost	852	642
Less Earned Revenue	<u>(2)</u>	<u>(11)</u>
<b>Net Cost</b>	<b><u>850</u></b>	<b><u>631</u></b>
<b>NET COST OF OPERATIONS (Note 24)</b>	<b><u><u>\$54,318</u></u></b>	<b><u><u>\$65,866</u></u></b>

The accompanying notes are an integral part of these statements.



**Department of Homeland Security**  
**Statements of Changes in Net Position**  
**For the Years Ended September 30, 2006 and 2005**  
(In Millions)

	<b>2006</b> <b>(Unaudited)</b>		<b>2005</b> <b>(Unaudited)</b> <b>(Restated)</b>	
	Earmarked Funds	All Other Funds	Consolidated Total	Consolidated Total
<b>Cumulative Results of Operations</b>				
Beginning Balances	\$(22,705)	\$(19,142)	\$(41,847)	\$(17,017)
Adjustments:				
Change in Accounting Principles (Note 34)	-	-	-	(8)
Corrections of Errors (Note 34)	-	-	-	(134)
Beginning Balance, as Adjusted	<b>(22,705)</b>	<b>(19,142)</b>	<b>(41,847)</b>	<b>(17,159)</b>
<b>Budgetary Financing Sources</b>				
Appropriations Used	13	52,882	52,895	38,068
Non-exchange Revenue	2,516	11	2,527	2,315
Donations and Forfeitures of Cash and Cash Equivalents	68	-	68	3
Transfers in/out without Reimbursement	(1,295)	1,657	362	265
Other	2	(183)	(181)	(143)
<b>Other Financing Sources (Non-Exchange)</b>				
Donations and Forfeitures of Property	-	6	6	8
Transfers in/out Reimbursement	-	30	30	11
Imputed Financing	2	700	702	651
Total Financing Sources	1,306	55,103	56,409	41,178
Net Cost of Operations	2,071	(56,389)	(54,318)	(65,866)
Net Change	3,377	(1,286)	2,091	(24,688)
<b>Cumulative Results of Operations</b>	<b>(19,328)</b>	<b>(20,428)</b>	<b>(39,756)</b>	<b>(41,847)</b>
<b>Unexpended Appropriations</b>				
Beginning Balance	29	87,102	87,131	25,504
Adjustments:				
Corrections of Errors (Note 34)	-	-	-	163
Beginning Balance, as Adjusted	<b>29</b>	<b>87,102</b>	<b>87,131</b>	<b>25,667</b>
<b>Budgetary Financing Sources</b>				
Appropriations Received (Note 31)	2	39,527	39,529	99,707
Appropriations Transferred in/out	-	(573)	(573)	158
Other Adjustments	-	(25,090)	(25,090)	(333)
Appropriations Used	(13)	(52,882)	(52,895)	(38,068)
Total Budgetary Financing Sources	(11)	(39,018)	(39,029)	61,464
Total Unexpended Appropriations	<b>18</b>	<b>48,084</b>	<b>48,102</b>	<b>87,131</b>
<b>NET POSITION</b>	<b>\$(19,310)</b>	<b>\$27,656</b>	<b>\$8,346</b>	<b>\$45,284</b>

The accompanying notes are an integral part of these statements.

**Department of Homeland Security**  
**Statements of Budgetary Resources**  
**For the Years Ended September 30, 2006 and 2005**  
(In Millions)

(Page 1 of 2)

	<u>2006</u> (Unaudited)		<u>2005</u> (Unaudited) (Restated)	
	<u>Budgetary</u>	<u>Non- Budgetary Credit Reform Financing Accounts</u>	<u>Budgetary</u>	<u>Non- Budgetary Credit Reform Financing Accounts</u>
<b>BUDGETARY RESOURCES</b>				
Unobligated Balance, Brought Forward, October 1	\$56,879	\$26	\$8,144	\$ -
Recoveries of Prior Year Unpaid Obligations	3,654	-	1,518	-
Budget Authority:				
Appropriations (Note 31)	45,748	-	105,147	-
Borrowing Authority	17,500	629	2,000	26
Spending Authority from Offsetting Collections:				
Earned:				
Collected	9,092	478	7,722	8
Change in Receivable from Federal Sources	39	-	(142)	-
Change in Unfilled Customer Orders:				
Advances Received	(541)	-	571	-
Without Advance From Federal Sources	186	481	569	-
Expenditure Transfers from Trust Funds	49	-	50	-
Subtotal	72,073	1,588	115,917	34
Non-expenditure Transfers, net; Anticipated and Actual	(228)	-	337	-
Temporarily Not Available Pursuant to Public Law	(29)	-	-	-
Permanently Not Available	(25,173)	(334)	(409)	(8)
<b>TOTAL BUDGETARY RESOURCES</b>	<b><u>\$107,176</u></b>	<b><u>\$1,280</u></b>	<b><u>\$125,507</u></b>	<b><u>\$26</u></b>
<b>STATUS OF BUDGETARY RESOURCES</b>				
Obligations Incurred: (Note 25)				
Direct	\$85,843	\$1,280	\$64,347	-
Reimbursable	4,289	-	4,281	-
Subtotal	90,132	1,280	68,628	-
Unobligated Balance:				
Apportioned	11,365	-	51,817	26
Exempt from Apportionment	80	-	45	-
Subtotal	11,445	-	51,862	26
Unobligated Balance Not Available	5,599	-	5,017	-
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b><u>\$107,176</u></b>	<b><u>\$1,280</u></b>	<b><u>\$125,507</u></b>	<b><u>\$26</u></b>

Department of Homeland Security  
Statements of Budgetary Resources  
For the Years Ended September 30, 2006 and 2005  
(In Millions)

(Page 2 of 2)

	<u>2006</u> (Unaudited)		<u>2005</u> (Unaudited) (Restated)	
	<u>Budgetary</u>	<u>Non- Budgetary Credit Reform Financing Accounts</u>	<u>Budgetary</u>	<u>Non- Budgetary Credit Reform Financing Accounts</u>
<b>CHANGE IN OBLIGATED BALANCE</b>				
Obligated Balance, Net				
Unpaid Obligations Brought Forward, October 1	\$40,456	-	\$26,432	-
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(1,845)	-	(1,418)	-
Total Unpaid Obligated Balance, net	38,611	-	25,014	-
Obligations Incurred, net	90,132	1,280	68,628	-
Less: Gross Outlays	(83,674)	(639)	(53,175)	-
Obligated Balance Transferred, net				
Actual Transfers, Unpaid Obligations	-	-	89	-
Total Unpaid Obligated Balance Transferred, net	-	-	89	-
Less: Recoveries of Prior Year Unpaid Obligations, Actual-	(3,654)	-	(1,518)	-
Change in Uncollected Customer Payments from Federal Sources	(225)	(481)	(427)	-
Obligated Balance, net. End of Period				
Unpaid Obligations	43,260	642	40,456	-
Less: Uncollected Customer Payments from Federal Sources	(2,070)	(482)	(1,845)	-
Total, Unpaid Obligated Balance, net, End of Period	<u>\$41,190</u>	<u>\$160</u>	<u>\$38,611</u>	<u>\$-</u>
<b>NET OUTLAYS</b>				
Gross Outlays	\$83,674	\$639	\$53,175	\$-
Less: Offsetting Collections	(8,600)	(478)	(8,342)	(8)
Less: Distributed Offsetting Receipts	(4,821)	-	(4,548)	-
<b>NET OUTLAYS</b>	<u><b>\$70,253</b></u>	<u><b>\$161</b></u>	<u><b>\$40,285</b></u>	<u><b>\$(8)</b></u>

The accompanying notes are an integral part of these statements.

**Department of Homeland Security**  
**Statements of Financing**  
**For the Years Ended September 30, 2006 and 2005**  
(In Millions)

(page 1 of 2)

	<u>2006</u> (Unaudited)	<u>2005</u> (Unaudited) (Restated)
<b>Resources Used to Finance Activities</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred (Note 25)	\$91,412	\$68,628
Less: Spending Authority from Offsetting Collections and Recoveries	(13,438)	(10,296)
Obligations Net of Offsetting Collections and Recoveries	77,974	58,332
Less: Offsetting Receipts	(4,821)	(4,548)
Net Obligations	<u>73,153</u>	<u>53,784</u>
<b>Other Resources</b>		
Donations and Forfeiture of Property	6	8
Transfers in(out) Without Reimbursement	30	11
Imputed Financing from Costs Absorbed by Others	702	651
Net Other Resources Used to Finance Activities	<u>738</u>	<u>670</u>
<b>Total Resources Used to Finance Activities</b>	<b>\$73,891</b>	<b>\$54,454</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	\$2,159	\$12,863
Resources that Fund Expenses Recognized in Prior Periods	19,591	42
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	(478)	(8)
Other	(2,433)	(741)
Resources that Finance the Acquisition of Assets	2,668	1,860
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	1,677	501
<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	<u>23,184</u>	<u>14,517</u>
<b>TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS</b>	<b><u>\$50,707</u></b>	<b><u>\$39,937</u></b>

Department of Homeland Security Statements of Financing For the Years Ended September 30, 2006 and 2005 (In Millions)		(page 2 of 2)
	<u>2006</u> (Unaudited)	<u>2005</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	\$140	\$67
Increase in Environmental and Disposal Liability	66	20
Increase in Exchange Revenue Receivable from the Public	(182)	(95)
Other		
Increase in Insurance Liabilities	-	21,651
Increase in Actuarial Pension Liability	1,721	1,691
Increase in USCG Military Post Employment Benefits	37	17
Increase in Actuarial Health Insurance Liability	658	367
Other	366	295
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	2,806	24,013
<b>Components not Requiring or Generating Resources</b>		
Depreciation and Amortization	1,152	1,121
Revaluation of Assets or Liabilities	25	552
Other	(372)	243
Total Components of Net Cost of Operations that will not Require or Generate Resources	805	1,916
<b>Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b>	<b>3,611</b>	<b>25,929</b>
<b>NET COST OF OPERATIONS</b>	<b>\$54,318</b>	<b>\$65,866</b>

The accompanying notes are an integral part of these statements.

**Department of Homeland Security**  
**Statements of Custodial Activity**  
**For the Years Ended September 30, 2006 and 2005**  
(In Millions)

	<b>2006</b>	<b>2005</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Revenue Activity</b>		
Sources of Cash Collections:		
Duties	\$24,730	\$23,198
User Fees	1,524	1,305
Excise Taxes	2,427	2,335
Fines and Penalties	64	63
Interest	12	9
Miscellaneous	178	417
<b>Total Cash Collections</b>	<b>28,935</b>	<b>27,327</b>
Accrual Adjustments (+/-)	(5,371)	253
<b>Total Custodial Revenue</b>	<b>23,564</b>	<b>27,580</b>
<b>Disposition of Collections</b>		
Transferred to Others:		
Federal Entities:		
U.S. Department of Agriculture	127	123
U.S. Department of Labor	189	142
U.S. Department of State	44	27
National Science Foundation	105	83
Treasury General Fund Accounts	27,206	25,688
Other Federal Agencies	17	16
Non-Federal Entities:		
Government of Puerto Rico	14	42
Government of the U.S. Virgin Islands	6	1
Other Non-Federal Entities	9	10
(Increase)/Decrease in Amounts Yet to be Transferred	(5,371)	250
Refunds and Drawbacks (Notes 18 and 33)	1,160	1,159
Retained by the Department	58	39
<b>Total Disposition of Custodial Revenue</b>	<b>23,564</b>	<b>27,580</b>
<b>Net Custodial Activity</b>	<b>\$ -</b>	<b>\$ -</b>

The accompanying notes are an integral part of these statements.



## Notes to the Financial Statements (Unaudited)

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## Notes to the Financial Statements (Unaudited)

### 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 107-296, dated March 25, 2002, as an executive department of the United States government. DHS' mission is to lead the national effort to secure America. This mission includes the prevention and deterrence of terrorist attacks and protection against, and response to, threats and hazards to the nation. Additionally, DHS' mission is to ensure the safety and security of borders, welcome lawful immigrants and visitors, and promote the free-flow of commerce. The Department is composed of the following reporting components:

**Federal Emergency Management Agency (FEMA)**

**Preparedness Directorate (PRE)**, including the Grants and Training (G&T), and U.S. Fire Administration (SPF)

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

**United States Citizenship and Immigration Services (USCIS)**

**United States Coast Guard (USCG)**

**United States Customs and Border Protection (CBP)**

**Federal Law Enforcement Training Center (FLETC)**

**United States Immigration and Customs Enforcement (ICE)**, including the Federal Protective Services (FPS)

**United States Secret Service (USSS)**

**Transportation Security Administration (TSA)**, including the Federal Air Marshals (FAM)

**United States VISIT (US VISIT)**

**Departmental Operations and Other**, including the Management Directorate (MGT), Headquarters, and the Office of the Inspector General (OIG)

On July 13, 2005, Secretary Michael Chertoff announced his agenda for the Department designed 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 the nation. This agenda reflects conclusions drawn as a result of the Second Stage Review (2SR or the Review). The Review examined the Department in order to recommend ways that the Department could better manage risks in terms of threats, vulnerability and consequences; prioritize policies and operational missions according to this risk based approach; and establish a series of steps that would increase security.

As a result of 2SR, which was formally approved on October 18, 2005, the Department underwent a realignment designed to increase its ability to prepare, prevent, and respond to terrorist attacks and other emergencies. Specific realignments that affect financial reporting include the establishment of four offices that are reported in the accompanying financial statements and footnote disclosures under Departmental Operations and Other.

- The Office of Policy was created to serve as the primary Department-wide coordinator for policies, regulations, and other initiatives. These functions were previously performed under the Border and Transportation Security Directorate.
- The Office of Intelligence and Analysis was created to gather, analyze, and report information from relevant field operations and information from other parts of the intelligence community. These functions were previously performed, in part, under the Information Analysis and Infrastructure Protection Directorate.
- The Office of Operations Coordination was established to conduct joint operations across the Department, coordinate incident management and the management of the Homeland Security Operations Center.
- The Office of Legislative and Intergovernmental Affairs was created to merge similar functions previously provided by the Office of Legislative Affairs and the Office of State and Local Government Coordination.

During fiscal year 2005, the Border and Transportation Security Directorate (BTS) consisted of CBP, ICE, FPS, FAM, TSA, and FLETC. The 2SR changes disassembled the BTS as a Directorate and established each component with direct reporting to the Secretary, with the exception of FAM which is reported as a component of TSA and FPS which is reported as a component of ICE. U.S. VISIT was also established as a separate reporting component.

The Emergency Preparedness and Response Directorate (EP&R) is no longer a separate component of the Department, as reported in fiscal year 2005. In fiscal year 2006, FEMA (formerly a component of EP&R) was established as a separate reporting component. Additionally, the Information Analysis and Infrastructure Protection Directorate was renamed the Preparedness Directorate (PRE). This Directorate was established to consolidate preparedness assets from across the Department, including the remaining EP&R functions, specifically the U.S. Fire Administration, that was previously reported with FEMA. Included in PRE is the Grants and Training component, formerly known as the Office of State and Local Government Coordination and Preparedness, which no longer exists as a separate office.

Based on the 2SR changes discussed above, the fiscal year 2005 financial statement balances were reclassified to conform with the fiscal year 2006 presentation. See Note 1.B., Basis of Presentation, for detailed information regarding the reporting effects of these changes.

## B. Basis of Presentation

These financial statements are prepared to report the consolidated financial position, net cost of operation, changes in net position, custodial activity, and financing, and the combined budgetary resources of the Department pursuant to the *Government Management Reform Act of 1994* (Public Law 103-356) and *Chief Financial Officers Act of 1990* (Public Law 101-576), as amended by the *Reports Consolidation Act of 2000* (Public Law 106-531).

The Department's financial statements have been prepared from the accounting records of the Department in conformity with U.S. generally accepted accounting principles (GAAP), and the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. GAAP 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.

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

Intragovernmental assets and liabilities result from activity with other Federal entities. 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 entities and intragovernmental costs are payments or accruals to other Federal entities. Transactions and balances among the Department's components have been eliminated in the consolidated presentation of the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and the Statements of Custodial Activity and certain lines of the Statements of Financing. The Statements of Budgetary Resources is reported on a combined basis; therefore, intradepartmental balances have not been eliminated.

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

These financial statements should be read with the realization that they are for a component of the United States Government, 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.

**Reclassifications.** As a result of the 2SR changes affecting the definition of the Reporting Entity, OMB and other presentation changes, certain reclassifications were made to the fiscal year 2005 financial statements and associated footnotes to conform with the fiscal year 2006 presentation.

## C. Basis of Accounting

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. Budgetary accounting facilitates compliance with legal constraints and the controls over the use of Federal funds. The balances and activity of budgetary accounting is used to prepare the Statements of Budgetary Resources. The Statements of Custodial Activity is reported using the modified cash basis. With this method, revenue from cash collections is reported separately from receivable accruals and cash disbursements are reported separately from payable accruals.

## D. 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 financial statements. Actual results could differ from these estimates. Significant estimates include: the 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 operating supplies and materials (OM&S) balances, allocations of indirect common costs to construction-in-progress, depreciation, subsidy re-estimates, deferred revenues, National Flood Insurance Program (NFIP) insurance liability, actuarial workers compensation assumptions, military 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.

**E. Entity and Non-Entity Assets**

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

Non-entity assets are assets held by the Department, but are not available for use by the Department. An example of a non-entity asset is Fund Balance with Treasury available to pay refunds and drawback claims of duties, taxes and fees, which the Department collects but has no authority to spend.

**F. Fund Balance with Treasury**

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

The Department does not maintain cash in commercial bank accounts. For FEMA, certain receipts are received and processed by insurance companies. The remainder of the receipts and disbursements are processed by Treasury.

For additional information, see Note 3, Fund Balance with Treasury.

**G. Cash and Other Monetary Assets**

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

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

**H. Investments, Net**

Investments consist of United States government non-marketable par value and market based Treasury securities, and are reported at cost or amortized cost net of premiums or discounts. Premiums or discounts are amortized into interest income over the terms of the investment using the effective interest method or the straight line method, which approximates the interest method. No provision is made for unrealized gains or losses on these securities because it is the Department's intent to hold these investments to maturity.

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

**I. Accounts Receivable, Net**

Accounts receivable represent amounts due to the Department by other Federal agencies and the public. Intragovernmental accounts receivable generally arise from the provision of goods and services to other Federal agencies and are expected to be fully collected.

Accounts receivable due from the public typically results from various immigration and user fees, premiums and restitution from insurance companies and policyholders, breached bonds, reimbursable services, and security fees. 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, or historical collection experience. Interest due on past receivables is fully reserved until collected.

For additional information, see Note 6, Accounts Receivable, Net.

**J. Advances and Prepayments**

Intragovernmental advances, presented as a component of other assets in the accompanying Balance Sheets, consist primarily of disaster recovery and assistance advances to other Federal agencies tasked with mission assignments.

Advances and prepayments to the public, presented as a component of other assets in the accompanying Balance Sheets, consist primarily of disaster recovery and assistance grants to states and other grant activity. Advances are expensed as they are used by the recipients. At year end, the amount, if any, of grant funding unexpended and a grant payable is estimated based on cash transactions reported by the grant administrator.

For additional information, see Note 13, Other Assets.

**K. Direct Loans, Net**

Direct loans are loans issued by the Department to local governments. FEMA, the only DHS component with loan activity, operates the Community Disaster Loan program to support 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, FEMA transacts direct loans to local governments who meet statutorily set eligibility criteria. Loans are accounted for as receivables as funds are disbursed.

All of the Department's loans are post 1991 obligated direct loans, and the resulting receivables are governed by the *Federal Credit Reform Act of 1990 (FCRA)*. 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. The Department calculates the subsidy costs based on a subsidy calculator model created by OMB.

Loans receivable are recorded at the present value of the estimated net cash flows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recorded in the allowance for subsidy, which is estimated and adjusted annually, as of year-end.

For additional information see Note 8, Direct Loans, net.

**L. Inventory and Related Property, Net**

Operating materials and supplies (OM&S) are tangible personal property consumed during normal operations. Department OM&S consists primarily of goods consumed during the service of vessels and aircraft. OM&S are valued based on an average unit cost, 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 historical experience with using and disposing of such assets.

Inventory is tangible personal property that is held for sale, in the process of production for sale, or to be consumed in the production of goods for sale, or in the provision of services for fees. Department 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.

Stockpile materials are critical materials held due to statutory requirements for use in national emergencies. The Department's stockpile materials held by FEMA include goods that would be used to respond to national disasters, including water, meals, cots, and blankets. The goods are valued at historical cost.

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

**M. Seized and Forfeited Property**

The Department's prohibited seized property results primarily from criminal investigations and passenger/cargo processing. Seized property falls into two categories, prohibited and non-prohibited. Prohibited seized property includes illegal drugs, contraband, and counterfeit items that cannot legally enter into the commerce of the United States; non-prohibited seized property includes items that are not inherently illegal to possess or own such as monetary instruments, real property, and tangible personal property of others.



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.

Forfeited property is seized property for which the title has passed to the United States government. Prohibited items such as counterfeit goods, narcotics, or firearms are held by the Department until disposed of or destroyed. Non-prohibited seized property is transferred to the Treasury Forfeiture Fund.

An analysis of changes in seized and forfeited property of prohibited items is presented in Note 10.

#### **N. General Property, Plant, and Equipment, Net**

The Department's property, plant, and equipment (PP&E) consists of aircraft, vessels, vehicles, land, structures, facilities, capital leases, leasehold improvements, software, information technology and other equipment. PP&E is recorded at cost. The Department capitalizes PP&E acquisitions when the cost equals or exceeds an established threshold and has a useful life of two years or more.

Costs for construction projects are recorded as construction-in-progress until completed, and are valued at actual (direct) cost, 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.

The schedule of capitalization thresholds shown below is a summary of the range of capitalization rules in place from the legacy agencies that comprised the Department at inception. In accordance with DHS policy, components were allowed to continue using their legacy thresholds and capitalization rules until a more comprehensive approach is developed that takes into account the vast differences in component size and asset usage.

The ranges of capitalization thresholds and service life used by components, by primary asset category, are as follows:

<b>Asset Description</b>	<b>Capitalization Threshold</b>	<b>Service Life</b>
Land and improvements	Regardless of cost to \$100,000	Not Applicable to 50 years
Buildings and improvement	\$25,000 to \$200,000	2 years to 50 years
Equipment and capital leases	\$5,000 to \$200,000	3 years to 65 years
Software	\$50,000 to \$750,000	2 years to 10 years

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

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

#### **O. Stewardship Property, Plant and Equipment**

Stewardship PP&E includes heritage assets and stewardship land which generally are not included in general PP&E presented on the balance sheet. Heritage assets are unique due to their historical or natural significance, cultural, educational, or artistic importance, or significant architectural characteristics. Heritage assets can serve two purposes, a heritage function and general government operational function. If a heritage asset serves both purposes, but is predominantly used for general government



The Department's multi-use heritage assets consist primarily of buildings and structures owned by CBP and USCG. CBP depreciates its multi-use heritage assets. Due to their nature, heritage assets are not depreciated because matching costs with specific periods would not be meaningful.

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

#### **P. Liabilities**

Liabilities represent the probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay the 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.

#### **Q. Contingent Liabilities**

Certain conditions exist as of the date of the financial statements, which may result in a loss to the government, but which will only be resolved when one or more future events occur or fail to occur. The Department recognizes a loss contingency when the future outflow or other sacrifice of resources is probable and reasonably estimable. The Department discloses a loss contingency in the notes to the financial statements when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote. The uncertainty of loss should be resolved when one or more future events occur or fail to occur.

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

**Environmental Cleanup Costs.** Environmental liabilities consist of environmental remediation, and cleanup and decommissioning. The liability for environmental remediation is an estimate of costs necessary to bring a known contaminated asset into compliance with applicable environmental standards. Accruals for environmental cleanup costs are the costs of removing, containing, and/or disposing of hazardous wastes or materials that, because of quantity, concentration, or physical or chemical characteristics may pose a substantial present or potential hazard to human health or the environment.

For all PP&E in service as of October 1, 1997, DHS recognizes the estimated total cleanup costs associated with the PP&E at the time the cleanup requirement is identified. DHS does 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 are considered cleanup costs.

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

#### **R. Grants Liability**

The Department awards grants and cooperative agreements to Federal, state and local governments, universities, non-profit organizations, and private sector companies for the purpose of building the 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. The Department estimates the year-end grant accrual for unreported grantee expenditures using historical disbursement data. Grants liabilities are combined with accounts payable to the public in the accompanying Balance Sheets.

For more information see Note 18, Other Liabilities.

#### **S. Insurance Liabilities**

Insurance liabilities are the result of the Department's sale or continuation-in-force of flood insurance known as the National Flood Insurance Program (NFIP), which is managed by FEMA. The insurance liability represents an estimate of NFIP losses that are unpaid at the Balance Sheet date. Although the insurance underwriting operations believes the liability for unpaid losses and loss adjustment expenses is reasonable and adequate in the circumstances, 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 estimate reported in the financial statements.

For more information see Note 18, Other Liabilities, and Note 20, Insurance Liabilities.

## T. Debt and Borrowing Authority

Debt is reported within Intragovernmental Liabilities and results from Treasury loans and related interest payable to fund NFIP and Disaster Assistance Direct Loan Program (DADLP) operations. The Department's obligations for NFIP and DADLP are financed by principal repayments, flood premiums, and map collection fees.

The Department has borrowing authority for NFIP and DADLP, and may obtain additional borrowing authority if needed.

For more information see Note 15, Debt.

## U. Accrued Payroll and Benefits

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

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

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

The FECA liability consists of two components. The first component, accrued FECA liability, is based on actual claims paid by Labor but not yet reimbursed by the Department. The Department reimburses Labor for the amount of actual claims as funds are appropriated for this purpose. There is generally a two-to three-year time period between payment by Labor and reimbursement to Labor by the Department. As a result, the Department recognizes an intragovernmental liability for the actual claims paid by Labor and to be reimbursed by the Department.

The second component, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a component of Federal Employee and Veterans' Benefits. This liability includes death, disability, medical, and miscellaneous costs. Labor determines this component annually, as of September 30, using an actuarial method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value using the OMB economic assumptions for 10-year Treasury notes and bonds. To provide for the effects of inflation on the liability, wage inflation factors (i.e., cost of living adjustments), and medical inflation factors (i.e., consumer price index medical adjustments) are applied to the calculation of projected future benefit payments. These factors are also used to adjust historical benefit payments and to adjust future benefit payments to current year constant dollars. The actuarial FECA liability is not covered by budgetary resources and will require future funding.

For more information on the Actuarial FECA Liability see Note 16, Federal Employee and Veterans' Benefits. For more information on the Accrued FECA Liability, Accrued Payroll and Accrued Leave, see Note 18, Other Liabilities.

## V. Federal Employee and Veterans' Benefits

**Civilian Pension and Other Post Employment 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 Office of Personnel Management (OPM) rather than the Department.

Most U.S. Government employees of DHS 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 (FEHB) and Federal Employees Group Life Insurance Program (FEGLI). 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 and FERS retirement, ORB and OPEB and the amount paid by the Department is recorded as an imputed cost and offsetting imputed financing source in the accompanying financial statements.

**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 Balance Sheet

plan assets, from the present value of the future cost of benefits. Current period expense is computed using the aggregate entry age normal actuarial cost method.

A portion of the accrued MRS liability is for the health care of non-Medicare eligible retirees/survivors. The Department of Defense (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.

**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 related 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 of 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.

**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 a pay-as-you-go system funded through annual appropriations. The unfunded accrued liability reported on the accompanying 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.

For more information on Civilian Pension and Other Post Employment Benefits, Military Retirement System Liability, Post-employment Military Travel Benefit and Uniformed Division and Special Agent Pension Liability see Note 16, Federal Employee and Veterans' Benefits.

## W. Earmarked Funds and Adoption of a New Accounting Standard

The Department adopted SFFAS No. 27, *Identifying and Reporting Earmarked Funds*. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues.

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

For additional information see Note 22, Earmarked Funds, and Note 5, Investments, Net.

## X. Revenue and Financing Sources

**Appropriations.** The Department receives the majority of funding to support its programs through Congressional appropriations. The Department receives annual, multi-year, and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional funding is obtained through exchange 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 agencies 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 and Non-Exchange Revenue.** Exchange revenues are recognized when earned and are derived from transactions where both the government and the other party receive value; i.e., goods have been delivered or services have been rendered. Non-exchange revenues from user fees are recognized as earned in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended. Non-exchange revenues arise from transfers in with and without financing sources and donations from the public. Other financing sources, such as donations and transfers of assets without reimbursements, are recognized on the Statements of Changes in Net Position during the period in which the donations and transfers occurred.

- Fees for flood mitigation products and services, such as insurance provided through FEMA's 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 and naturalization benefits. Revenue associated with the application fees received is deferred and not considered earned until the application is adjudicated.

Deferred revenue is recorded when the Department receives payment for goods or services which have not been fully rendered. Certain application fees are paid at the time of filing and are recognized as revenue when the requested benefits are adjudicated. Additionally, NFIP premium revenue is recognized over the life of the insurance policies. Deferred revenue is reported as a liability on the Balance Sheets.

**Imputed Financing Sources.** In certain instances, operating costs of DHS are paid out of funds appropriated to other Federal agencies. For example, the 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 Statements of Changes in Net Position to indicate the funding of DHS operations by other Federal agencies.

**Custodial Revenue.** Non-entity revenue and refunds are reported on the Statements of Custodial Activity using a modified cash basis. Non-entity revenue reported on the Department's Statement of Custodial Activity include duties, excise taxes, and various non-exchange fees collected by CBP and USCIS that are subsequently remitted to Treasury's General Fund or to other Federal agencies. Duties, user fees, fines and penalties are assessed pursuant to the provisions of Title 19 United States Code (U.S.C.); nonimmigrant petition 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.).

CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. Non-entity tax and trade accounts receivables are 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. The custodial revenue is recorded at the time of collection. 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. Fees collected by USCIS for nonimmigrant petitions must be submitted with the petition. The portions of the fees that are subsequently remitted to other Federal agencies are recorded as custodial revenue at the time of collection.

Non-entity receivables are presented net of amounts deemed uncollectible. CBP tracks and enforces payment of estimated duties, taxes and fees receivable by establishing a liquidated 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 Statements of Custodial Activity to adjust cash collections and refund disbursements with the net increase or decrease of accrued non-entity accounts receivables, net of uncollectible amounts and refunds payable at year-end.

For additional information see Note 7, Taxes, Duties, and Fees Receivables, Net, and Note 33, Custodial Revenues.

#### **Y. 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 financial statements.

#### **Z. Restatements**

In fiscal year 2006, the Department restated certain fiscal year 2005 balances. A brief explanation of the restatements follows, for additional information see Note 34, Restatements.

- TSA restated its fiscal year 2005 results to correct an error and to ensure its accounting practices for airline passenger and air carrier security fee collections are consistent with relevant legislation and government practice. This restatement did not change the net cost of the Department's operations and did not increase or decrease the amount of budgetary resources available to the Department. The restatement corrected the Statements of Budgetary Resources, Changes in Net Position, and related footnotes for fiscal year 2005.
- During fiscal year 2006, TSA became aware of obligations incurred but not recorded in prior years. As a result, the fiscal year 2005 Statement of Budgetary Resources was restated.
- The USCG restated its fiscal year 2005 results due to an error in the data used to determine the estimate for the Postretirement Medical liability. The restatement decreased the Federal Employee and Veterans' Benefits liability on the Balance Sheet as of September 30, 2005 which also resulted in an increase to the Cumulative Results of Operations. The restatement also resulted in decrease to gross cost of operations in fiscal year 2005 which also affect the Statements of Changes in Net Position and Financing.
- ICE, USCIS and PRE restated certain financial statement balances as a result of errors discovered during the implementation of corrective actions. These corrective actions primarily focused on Fund Balance with Treasury, Accounts Payable and Property, Plant, and Equipment and resulted in restatements to all principal statements except the Statement of Custodial Activity.
- FLETC restated certain 2005 financial statement balances due to accounting errors and accounting changes noted during fiscal year 2006. As a result, the Balance Sheet, the Statement of Changes in Net Position, and the Statement of Financing were restated.
- As a result of new or updated reporting requirements and the restatements completed based on errors noted by the components, the Department noted reporting errors that were not attributable to a single component. Therefore, the Department restated the Statement of Budgetary Resources and the Statement of Financing to correct errors based on improvements to the financial statement crosswalks.



## 2. Non-Entity Assets

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

	2006 (Unaudited)	2005 (Unaudited) (Restated)
Intragovernmental:		
Fund Balance with Treasury	\$5,949	\$5,067
Due From Treasury	411	144
Total Intragovernmental	<u>6,360</u>	<u>5,211</u>
Cash and Other Monetary Assets	46	44
Accounts Receivable, Net	19	19
Taxes, Duties, and Trade Receivables, Net	1,755	1,400
Property, Plant, and Equipment	3	6
Total Public	<u>1,823</u>	<u>1,469</u>
Total Non-Entity Assets	8,183	6,680
Total Entity Assets	<u>71,050</u>	<u>107,816</u>
<b>Total Assets</b>	<b><u>\$79,233</u></b>	<b><u>\$114,496</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 Balance Sheet. Non-entity Fund Balance with Treasury at September 30, 2006, includes \$5.2 billion in unliquidated duties on imports of Canadian Softwood lumber collected by CBP. Non-entity Fund Balance with Treasury at September 30, 2005, includes (in deposit fund) approximately \$4.7 billion of unliquidated duties collected by CBP on imports of Canadian Softwood Lumber. All non-entity Fund Balance with Treasury is considered restricted cash. These assets offset accrued liabilities at September 30, 2006, and 2005 (see Notes 3 and 18).

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. Duties and taxes receivable from the 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 of \$1.8 billion and \$1.4 billion at September 30, 2006 and 2005, respectively (see Notes 7 and 18).



### 3. Fund Balance with Treasury

#### A. Fund Balance with Treasury

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

	2006 (Unaudited)	2005 (Unaudited) (Restated)
Appropriated Funds	\$50,898	\$89,508
Trust Funds	35	27
Revolving, Public Enterprise, and Working Capital Funds	216	108
Special Funds	2,909	2,457
Deposit Funds	5,510	4,912
<b>Total Fund Balance with Treasury</b>	<b>\$59,568</b>	<b>\$97,012</b>

Appropriated funds consist of amounts appropriated annually by Congress to fund the operations of the Department. Appropriated funds included clearing funds totaling \$110 million and \$105 million at September 30, 2006 and 2005, respectively, which represent reconciling differences with Treasury balances. The majority of the decrease in Appropriated funds is due to a FEMA rescission and an increase in payments to Hurricane Katrina recipients.

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 and oil spill related claims and activities.

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 components. Also included are the financing funds for credit reform and the National Flood Insurance Fund.

Special funds include funds earmarked for specific purposes including the disbursement of non-entity monies received in connection with antidumping and countervailing duty orders due to qualifying Injured Domestic Industries (IDI). The Department also has special funds for immigration and naturalization user fees and CBP user fees; as well as inspection fees, flood map modernization subsidy, and off-set and refund transfers. For information related to earmarked funds see Note 22.

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. The majority of the deposit fund balance relates to unliquidated antidumping and countervailing duties collected by CBP, mostly related to Canadian Softwood lumber.

#### B. Status of Fund Balance with Treasury

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

	2006 (Unaudited)	2005 (Unaudited) (Restated)
Budgetary Status		
Unobligated Balances:		
Available	\$11,445	\$51,888
Unavailable	5,599	5,017
Obligated Balance Not Yet Disbursed	41,350	38,611
Total Budgetary Status	58,394	95,516
Reconciling Adjustments:		
Receipt, Clearing, and Deposit Funds	5,634	5,020
Borrowing Authority	(4,230)	(3,301)
Investments	(628)	(729)
Receivable Transfers and Imprest Fund	(97)	(79)
Receipt unavailable for obligation	495	585
<b>Total Fund Balance with Treasury</b>	<b>\$59,568</b>	<b>\$97,012</b>

Adjustments required to reconcile the budgetary status to non-budgetary Fund Balance with Treasury as reported in the accompanying Balance Sheets are as follows:

- Receipt, clearing, and deposit funds represent amounts on deposit with Treasury that have no budget status at September 30, 2006 and 2005. Included in adjustments for deposit funds are restricted balances for Canadian softwood lumber non-entity funds and receipts that are not available for obligation.
- Borrowing authority is in budgetary status for use by FEMA 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 increase 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 Cash and Other Monetary Assets 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 Obligated Balance Not Yet Disbursed contain CBP's user fees of \$761 million and \$741 million at September 30, 2006 and 2005, respectively, which is restricted by law in its use to offset costs incurred by CBP.

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

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

During September 2005, the Disaster Relief Fund received two supplemental appropriations totaling \$60 billion for Hurricane Katrina. During fiscal year 2006, \$23 billion was rescinded by the U.S. Congress, pursuant to Public Law 109-148. As of September 30, 2006 and 2005, this fund has an unobligated balance available of \$5.5 billion and \$46.4 billion, respectively.

#### 4. Cash and Other Monetary Assets

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

	2006 (Unaudited)	2005 (Unaudited)
Cash	\$62	\$42
Seized Monetary Instruments	37	36
<b>Total Cash and Other Monetary Assets</b>	<b>\$99</b>	<b>\$78</b>

DHS Cash includes cash held by others, including the net balance maintained by insurance companies for flood insurance premiums received from policyholders, less amounts paid for insured losses; undeposited cash, which represents fees collected but not yet deposited; and imprest funds. Seized Monetary Instruments are held until disposition and relate primarily to gold coins seized at the end of fiscal year 2004. As of September 30, 2006 and 2005, restricted cash and other monetary assets is \$46 and \$44 million, respectively.

## 5. Investments, Net

Investments at September 30, 2006 consisted of the following (in millions):

Type of Investment:	Amortization Method	Cost	Amortized (Premium) Discount	Investments, Net (Unaudited)	Market Value Disclosure
<i>Intragovernmental Securities:</i>					
Oil Spill Liability Trust Fund	Effective interest method	\$610	\$(15)	\$595	N/A
Total Non-Marketable		610	(15)	595	N/A
Non-Marketable, Market-Based	Straight line method	39	-	39	39
<b>Total Investments, Net</b>		<b>\$ 649</b>	<b>\$(15)</b>	<b>\$ 634</b>	<b>N/A</b>

Investments at September 30, 2005 consisted of the following (in millions):

Type of Investment:	Amortization Method	Cost	Amortized (Premium) Discount	Investments, Net (Unaudited)	Market Value Disclosure
<i>Intragovernmental Securities:</i>					
Oil Spill Liability Trust Fund	Effective interest method	\$749	\$(14)	\$735	N/A
General Gift Fund	Straight line method	1	-	1	N/A
Total Non-Marketable		750	(14)	736	N/A
Non-Marketable, Market-Based	Straight line method	2	-	2	2
<b>Total Investments, Net</b>		<b>\$752</b>	<b>\$(14)</b>	<b>\$738</b>	<b>N/A</b>

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds (Oil Spill Liability Trust Fund and General Gift Fund) for the USCG. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the USCG as evidence of its receipts. Treasury securities associated with earmarked are an asset to USCG and a liability to the U.S. Treasury. Because DHS and the U.S. Treasury are all parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, these funds do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide USCG with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the USCG requires redemption of these securities to make expenditures, the Government finances those expenditures out of the accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

## 6. Accounts Receivable, Net

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

	2006 (Unaudited)	2005 (Unaudited)
Intragovernmental	\$248	\$217
With the Public:		
Accounts Receivable	1,639	929
Allowance for Doubtful Accounts	(458)	(397)
	<u>1,181</u>	<u>532</u>
<b>Accounts Receivable, Net</b>	<u><b>\$1,429</b></u>	<u><b>\$749</b></u>

Intragovernmental accounts receivable results from reimbursable work performed by the Department. Accounts receivable with the public consist of amounts due for reimbursable services and user fees. The increase in accounts receivable with the public is primarily caused by a change in how TSA calculates security fees due from airline companies, for FEMA's Other Needs Assistance program, and for the recovery of payments to disaster victims.

## 7. Tax, Duties, and Fees Receivables, Net

Tax, Duties, and Fees Receivables consisted of the following (in millions):

As of September 30, 2006 (Unaudited):

Receivables Category	Gross Receivables	Allowance	Total Net Receivables
Duties	\$1,601	\$(118)	\$1,483
Excise Taxes	99	(6)	93
User Fees	120	(13)	107
Fines/Penalties	1,243	(1,187)	56
Anti-Dumping/Countervailing Duties	259	(243)	16
<b>Total Tax, Duties, and Fees Receivables, Net</b>	<u><b>\$3,322</b></u>	<u><b>\$(1,567)</b></u>	<u><b>\$1,755</b></u>

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 Fees Receivables, Net</b>	<u><b>\$2,712</b></u>	<u><b>\$(1,312)</b></u>	<u><b>\$1,400</b></u>

When a violation of import/export law is discovered, a fine or penalty is established. CBP assesses a liquidated damage or penalty for these cases to the maximum extent of the law. After receiving the notice of assessment, the importer or surety has 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 96 percent (93 percent at September 30, 2005) of the total assessment based on historical experience of fines and penalties mitigation and collection. Duties and taxes receivables are non-entirety assets for which there is an offsetting liability due to the Treasury General Fund.

## 8. Direct Loans, Net

DHS's loan program consists of two types of direct loans, both administered by FEMA: (1) State Share Loans: FEMA may lend or advance to a State or an eligible applicant the portion of the assistance for which the applicant is responsible under cost-sharing provisions of the Stafford Act. For 1992 and beyond, the State Share Loans are obligated from the Disaster Assistance Direct Loan Financing Account. (2) Community Disaster Loans (CDLs): Loans may be authorized to local governments that have suffered a substantial loss of tax and other revenues as a result of a major disaster, and have demonstrated a need for financial assistance in order to perform their municipal operating functions. The loans are made at the current Treasury rate for a term of 5 years and cannot exceed 25 percent of the annual operating budget of the local government for the fiscal year in which the major disaster occurred, with the exception of Hurricanes Katrina/Rita Special CDL. The rates for Katrina/Rita Special CDL are less than the Treasury rate and cannot exceed 50 percent of the annual operating budget of the local government for the fiscal year in which the major disaster occurred. In addition, in accordance with recent Stafford Act amendments (P.L. 109-88), CDLs may exceed \$5 million and shall not be canceled.

For FY 2006, subsidies totaling \$1 billion has been approved for up to \$1.4 billion in CDLs to local governments in the Gulf Region affected by the 2005 hurricane season. As of September 30, 2006, loans totaling \$1.3 billion had been approved. Disbursements are tracked by cohort as determined by the date of obligation rather than disbursement.

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

	2006 (Unaudited)	2005 (Unaudited)
	Loans Receivable, Net	Loans Receivable, Net
<b>Community Disaster Loans</b>	<b>\$161</b>	<b>\$ .5</b>

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

### B. Direct Loans Obligated Prior to Fiscal Year 1992

All direct loans obligated prior to fiscal year 1992 have been collected and therefore, no balance remained as of September 30, 2006 and 2005.

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

At September 30, 2006 (Unaudited):	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
<b>Community Disaster Loans</b>	<b>\$631</b>	<b>\$9</b>	<b>\$(479)</b>	<b>\$161</b>
At September 30, 2005 (Unaudited):	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
<b>Community Disaster Loans</b>	<b>\$2.3</b>	<b>\$1.4</b>	<b>\$(3.2)</b>	<b>\$0.5</b>

### D. Total Amount of Direct Loans Disbursed, Post-1991 (in millions):

	2006 (Unaudited)	2005 (Unaudited)
Community Disaster Loans	<b>\$629</b>	<b>\$ -</b>

**E. Subsidy Expense for Direct Loans by Program and Component (in millions):****Subsidy Expense for New Direct Loans Disbursed as of September 30 (in millions):**

Community Disaster Loans	Interest Differential	Defaults and Other	Total
2006 (Unaudited)	\$109	\$362	\$471
2005 (Unaudited)	-	-	-

For the Community Disaster Loan Program there were no re-estimates or modifications to the subsidy expense.

**Total Direct Loan Subsidy Expense**

	2006 (Unaudited)	2005 (Unaudited)
<b>Community Disaster Loans</b>	<b>\$471</b>	<b>\$ -</b>

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

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

	2006 (Unaudited)		2005 (Unaudited)	
	Community Disaster Loans	State Share Loans	Community Disaster Loans	State Share Loans
Interest Subsidy Cost	17.4 %	(.55) %	3.72 %	(2.98) %
Default Costs	57.6 %	- %	- %	- %
Other	- %	0.36 %	89.72 %	0.38 %

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

	2006 (Unaudited)	2005 (Unaudited)
Beginning Balance of the Subsidy cost allowance	\$3.2	\$185.1
Add: subsidy expense for direct loans disbursed during the reporting years by component:		
(a) Interest rate differential costs	109.3	-
(b) Other subsidy costs	362.1	-
Adjustments:		
(a) Loans written off	-	(188.4)
(b) Subsidy allowance amortization	4.6	0.5
(c) Other	-	6.0
Ending balance of the subsidy cost allowance before reestimates	479.2	3.2
Add subsidy reestimate by component		
(a) Technical/default reestimate	-	-
<b>Ending balance of the subsidy cost allowance</b>	<b>\$479.2</b>	<b>\$3.2</b>

The amount of loans written off includes the cancellation of \$127 million (principal only) at September 30, 2005, in loans to the government of the Virgin Islands. No write-offs are reported as of September 30, 2006.



**H. Administrative Expenses at September 30 (in millions):**

	2006 (Unaudited)	2005 (Unaudited)
Community Disaster and State Share Loans	<b>\$1.6</b>	<b>\$0.4</b>

**9. Inventory and Related Property, Net**

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

	2006 (Unaudited)	2005 (Unaudited) (Restated)
OM&S		
Items Held for Use	\$337	\$354
Items Held for Future Use	28	86
Excess, Obsolete and Unserviceable Items	75	7
Less: Allowance for Losses	(75)	(7)
Total OM&S, Net	<b>365</b>	<b>440</b>
Inventory		
Inventory Purchased for Resale	69	59
Less: Allowance for Losses	(3)	(1)
Total Inventory, Net	<b>66</b>	<b>58</b>
Stockpile Materials Held in Reserve	<b>246</b>	-
<b>Total OM&amp;S and Inventory, Net</b>	<b>\$677</b>	<b>\$498</b>

## 10. Prohibited Seized Property

Prohibited seized property item counts as of September 30 and activity for the fiscal years then ended are as follows:

<b>Seizure Activity</b>						
Seized Property:	Fiscal Year Ended September 30, 2006 (Unaudited)					Seized Property:
Category	Balance October 1, 2005	New Seizures	Remissions	New Forfeitures	Adjustments	September 30 Weight/Items
Illegal Drugs (in kilograms):						
Cannabis (marijuana)	502	439,748	-	(439,597)	84	737
Cocaine	162	28,513	-	(28,289)	(33)	353
Heroin	26	1,345	-	(1,345)	(6)	20
Firearms and Explosives (in number of items)	2,021	1,362	(936)	(1,521)	(62)	864
Counterfeit Currency (US/Foreign, in number of items)	3,364,060	1,424,320	-	-	(560,949)	4,227,431
Pornography (in number of items)	141	158	-	(138)	(60)	101
<b>Forfeiture Activity</b>						
Forfeited Property:	Fiscal Year Ended September 30, 2006 (Unaudited)					Forfeited Property:
Category	Balance October 1, 2005	New Forfeitures	Transfers	Destroyed	Adjustments	September 30 Weight/Items
Illegal Drugs (in kilograms):						
Cannabis (marijuana)	92,834	439,597	(3,167)	(362,988)	(68,972)	97,304
Cocaine	21,513	28,289	(7)	(29,663)	(548)	19,584
Heroin	2,104	1,345	(1)	(1,242)	15	2,221
Firearms and Explosives (in number of items)	276	1,521	(1,551)	(4)	11	253
Pornography (in number of items)	39	138	-	(178)	33	32

## Prohibited Seized Property, Continued

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)	2,887,743	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

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. The adjustments column relates to prohibited property destroyed or adjustments made due to items incorrectly tagged or marked as to seized or forfeited.

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 not considered material and therefore is not itemized and is not reported in the financial statements of the Department.

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.

## 11. General Property, Plant, and Equipment, Net

General Property, Plant, and Equipment (PP&E) consisted of the following (in millions):

As of September 30, 2006 (Unaudited):	Service Life	Gross Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	\$75	N/A	\$75
Improvements to Land	3-50 yrs	64	29	35
Construction in Progress	N/A	2,914	N/A	2,914
Buildings, Other Structures and Facilities	2-50 yrs	3,876	1,902	1,974
Equipment:				
ADP Equipment	3-5 yrs	348	187	161
Aircraft	10-35 yrs	2,595	1,441	1,154
Vessels	5-65 yrs	4,233	2,152	2,081
Vehicles	3-8 yrs	502	380	122
Other Equipment	2-30 yrs	3,867	2,060	1,807
Assets Under Capital Lease	2-20 yrs	79	30	49
Leasehold Improvements	3-50 yrs	350	101	249
Internal Use Software	2-10 yrs	880	565	315
Internal Use Software- in Development	N/A	100	N/A	100
<b>Total General Property, Plant, and Equipment, Net</b>		<b>\$19,883</b>	<b>\$8,847</b>	<b>\$11,036</b>

As of September 30, 2005 (Unaudited) (Restated):	Service Life	Gross Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	\$63	N/A	\$63
Improvements to Land	3-50 yrs	50	22	28
Construction in Progress	N/A	2,403	N/A	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	3-8 yrs	501	348	153
Other Equipment	2-30 yrs	3,430	1,676	1,754
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	N/A	404
<b>Total General Property, Plant, and Equipment, Net</b>		<b>\$18,056</b>	<b>\$7,596</b>	<b>\$10,460</b>

## 12. Stewardship PP&E

DHS's Stewardship PP&E are primarily USCG's assets maintained to safeguard the remains of crew members who were lost at sea, to prevent the unauthorized handling of explosives or ordinance which may be aboard, and to preserve culturally valuable relics.

USCG does not acquire or retain heritage buildings and structures without an operational purpose. 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.

## 13. Other Assets

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

	2006 (Unaudited)	2005 (Unaudited)
Intragovernmental:		
Advances and Prepayments	\$2,912	\$2,937
Due from Treasury	411	144
Total Intragovernmental	<u>3,323</u>	<u>3,081</u>
Public:		
Advances and Prepayments	551	480
Total Public	<u>551</u>	<u>480</u>
<b>Total Other Assets</b>	<b><u>\$3,874</u></b>	<b><u>\$3,561</u></b>

Intragovernmental Advances and Prepayments primarily consists of FEMA's Disaster Relief Fund (DRF) disaster assistance advances to other Federal agencies (principally the Department of Transportation) tasked with restoration efforts of the New York City region transportation system. Non-entity Receivable Due from Treasury represents 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 refunds and drawbacks of \$411 million and \$144 million, as of September 30, 2006 and 2005, respectively.

The Department provides advance funds to public grant recipients to incur expenses related to the approved grant. Advances are made within the amount of the total grant obligation.

## 14. Liabilities Not Covered by Budgetary Resources

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

	2006 (Unaudited)	2005 (Unaudited) (Restated)
Intragovernmental:		
Debt (Note 15)	\$17,092	\$226
Accrued FECA Liability (Note 18)	323	358
Other	55	(1)
<b>Total Intragovernmental</b>	<b>17,470</b>	<b>583</b>
Public:		
Federal Employee and Veterans' Benefits:		
Actuarial FECA Liability (Note 16)	1,520	1,473
Military Service and Other Retirement Benefits (Note 16)	30,758	28,577
Environmental and Disposal Liabilities (Note 17)	245	165
Other:		
Accrued Payroll and Benefits (Note 18)	824	834
Insurance Liabilities (Note 20)	3,557	22,679
Contingent Legal Liabilities (Note 21)	24	221
Capital Lease Liability (Note 19)	110	75
Other	-	9
<b>Total Public</b>	<b>37,038</b>	<b>54,033</b>
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$54,508</b>	<b>\$54,616</b>
Liabilities Covered by Budgetary Resources or Non-Entity Assets	16,379	14,596
<b>Total Liabilities</b>	<b>\$70,887</b>	<b>\$69,212</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. Unfunded leave is included in accrued payroll and benefits. Intragovernmental Debt increased in fiscal year 2006 due to funds borrowed by FEMA from the Bureau of Public Debt to pay flood insurance claims, primarily related to Hurricanes Katrina and Rita.

## 15. Debt

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

	Beginning Balance	Net Borrowing	Ending Balance (Unaudited)
Fiscal year ended September 30, 2006			
<b>Other Debt:</b>			
Debt to the Treasury General Fund	\$226	\$17,220	\$17,446
<b>Total Debt</b>	<b>\$226</b>	<b>\$17,220</b>	<b>\$17,446</b>
Fiscal year ended September 30, 2005			
<b>Other Debt:</b>			
Debt to the Treasury General Fund	\$1	\$225	\$226
<b>Total Debt</b>	<b>\$1</b>	<b>\$225</b>	<b>\$226</b>

DHS' intragovernmental debt is owed to Treasury's Bureau of Public Debt and consists of borrowings to finance claims under NFIP and borrowings to finance the FEMA's credit reform programs (State Share Loans and Community Disaster Loans). The increase in fiscal year 2006 borrowings was the results of an increase to FEMA's borrowing authority to satisfy claims as a result of the 2005 hurricane season. FEMA did not utilize the total borrowing authority available of over \$18 billion.



NFIP loans are for a three-year term. Interest rates are obtained from the Bureau of Public Debt (BPD) and range by cohort year from 4.87% to 6.69% as of September 30, 2006 and from 6.20% and 6.69% as of September 30, 2005. Simple interest is calculated monthly – offset by an interest rebate, if applicable. The interest rebate is calculated at a rate equal to the weighted average of the interest rates of outstanding loans for the month multiplied by the "positive" daily account fund balance for the month. Interest is paid semi-annually, October 1 and April 1. Interest is accrued based on balances reported by BPD totaling \$275 as of September 30, 2006. The September 30, 2005 balance was zero. Principal repayments are required only at maturity, but are permitted any time during the term of the loan. All loan and interest payments are financed by the flood premiums and map collection fees.

Under Credit Reform, the unsubsidized portion of direct loans is borrowed from the Treasury. The repayment terms of FEMA'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 which is to be approved by OMB. Once these funds are appropriated, the original borrowings are repaid to Treasury. The weighted average interest rates for FY 2006 and FY 2005 were 4.53% and 3.56%, respectively.

## 16. Federal Employee and Veterans' Benefits

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

	2006 (Unaudited)	2005 (Unaudited) (Restated)
USCG Military Retirement and Healthcare Benefits	\$27,105	\$25,024
USCG Post-Employment Military Travel Benefits	128	100
USSS DC Pension Plan Benefits	3,518	3,453
Actuarial FECA Liability	1,520	1,473
Other	7	-
<b>Total Federal Employee and Veterans' Benefits</b>	<b>\$32,278</b>	<b>\$30,050</b>

### A. USCG Military Retirement and Healthcare Benefits

The USCG Military Retirement System (MRS or the Plan) 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 a pay-as-you-go system funded through annual appropriations. The unfunded accrued liability reported on the accompanying Balance Sheet is actuarially determined by subtracting the present value of future employer/employee contributions and any plan assets, from the present value of the future cost of benefits. Current period expense is computed using the aggregate entry age normal actuarial cost method.

The components of the MRS expense for the years ended September 30 consisted of the following (in millions):

	2006 (Unaudited)	2005 (Unaudited) (Restated)
Defined Benefit Plan:		
Normal cost	\$589	\$481
Interest on the liability	1,376	1,259
Actuarial losses/(gains)	(239)	617
Actuarial Assumption Change	902	103
Total Defined Benefit Plan Expense	<b>\$2,628</b>	<b>\$2,460</b>
Post-retirement Healthcare:		
Normal cost	\$180	\$137
Interest on the liability	249	226
Other Actuarial (gains)/losses	48	103
Total Post-retirement Healthcare Expense	<b>477</b>	<b>466</b>
<b>Total MRS Expense</b>	<b>\$3,105</b>	<b>\$2,926</b>

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 USCG's MRS includes the USCG Military Health Services System (Health Services Plan). The Health Services Plan is a post-retirement medical benefit plan, which covers all active duty and reserve members of the USCG.

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.

The unfunded accrued liability, presented as a component of the liability for military service and other retirement in the accompanying Balance Sheet, represents both retired pay and health care benefits for non-Medicare eligible retirees/survivors. 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 one month and one day 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.

## **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 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, 2006, 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, 2006 and 2005, were \$202 million and \$188 million, respectively.

### C. Actuarial FECA Liability

The actuarial Federal Employees' Compensation Act (FECA) liability represents the estimated liability for future workers' compensation and includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. Future workers' compensation estimates, generated from an application of actuarial procedures developed by the DOL, for the future cost of approved compensation cases were approximately \$1.5 billion at both September 30, 2006 and 2005.

### 17. Environmental and Disposal Liabilities

Environmental and Disposal Liabilities at September 30, 2006 and 2005, are \$245 million and \$179 million, respectively. 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*.

The liabilities are primarily due to light houses, light stations, fuel storagetank program, buildings containing asbestos and/or lead based paint, firing ranges, fuels, solvents, industrial, chemicals and other environmental cleanup associated with normal operations of CBP, FLETC, and the USCG. For Plum Island Animal Disease Center, under S&T, potential environmental liabilities may exist in addition to the amounts accrued in the accompanying financial statements that are not presently estimable but 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.

### 18. Other Liabilities

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

	Current	Non-Current	2006 (Unaudited)	2005 (Unaudited) (Restated)
<b>Intragovernmental:</b>				
Accrued FECA Liability	\$143	\$180	\$323	\$358
Advances from Others	22	-	22	109
Employer Benefits Contributions and Payroll Taxes	150	3	153	96
Due to the General Fund (Note 2)	1,809	-	1,809	1,434
Other Intragovernmental Liabilities	4	8	12	47
<b>Total Intragovernmental Other Liabilities</b>	<b>\$2,128</b>	<b>\$191</b>	<b>\$2,319</b>	<b>\$2,044</b>
<b>Public:</b>				
Accrued Payroll and Benefits (See B. below)	\$1,173	\$189	\$1,362	\$1,366
Deferred Revenue and Advances from Others (See B. below)	1,200	988	2,188	2,014
Deposit Liability (Notes 2 and 3)	34	-	34	4,706
Injured Domestic Industries (Notes 2 and 3)	476	-	476	237
Insurance Liabilities (Note 20)	1,177	2,390	3,567	23,433
Contingent Legal Liabilities (Note 21)	-	71	71	247
Capital Lease Liability (Note 19)	16	94	110	129
Refunds and Drawbacks (Note 2) (See B. below)	5,593	-	5,593	118
Other Liabilities	466	67	533	345
<b>Total Other Liabilities with the Public</b>	<b>\$10,135</b>	<b>\$3,799</b>	<b>\$13,934</b>	<b>\$32,595</b>
<b>Total Other Liabilities</b>	<b>\$12,263</b>	<b>\$3,990</b>	<b>\$16,253</b>	<b>\$34,639</b>

#### A. Intragovernmental Other Liabilities

**Workers' Compensation.** Claims incurred for the benefit of Department employees under FECA are administered by DOL and are ultimately paid by the Department. The accrued FECA liability represents money owed for current claims. Reimbursement

to DOL 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. Workers compensation expense was \$164 million and \$141 million, respectively, for the fiscal years ended September 30, 2006 and 2005.

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

## B. Other Liabilities with the Public

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

	2006 (Unaudited)	2005 (Unaudited)
Accrued Funded Payroll and Benefits	\$524	\$517
Accrued Unfunded Leave	767	729
Unfunded Employment Related Liabilities	57	105
Other	14	15
<b>Total Accrued Payroll and Benefits</b>	<b>\$1,362</b>	<b>\$1,366</b>

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

	2006 (Unaudited)	2005 (Unaudited)
Total USCIS Application Fees	\$702	\$773
FEMA Unexpired NFIP premium	1,473	1,226
Advances from Others	13	14
Deferred Credits	-	1
<b>Total Deferred Revenue</b>	<b>\$2,188</b>	<b>\$2,014</b>

USCIS requires payments of fees for applications or petitions for immigration and naturalization benefits at the time of filing. FEMA's deferred revenue relates to unearned NFIP premiums that are recognized over the term of the period of insurance coverage.

**Injured Domestic Industries.** 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. The duties will eventually be distributed, pursuant to rulings by the Department of Commerce.

**Refunds and Drawbacks.** The liability for refunds and drawbacks for the fiscal years ended September 30 consisted of the following (in millions):

	2006 (Unaudited)	2005 (Unaudited)
Canadian Softwood Lumber Duties and Accrued Interest	\$5,504	\$ -
Other Refunds and Drawbacks	89	118
<b>Total</b>	<b>\$ 5,593</b>	<b>\$118</b>

CBP has collected duties on the import of Canadian Softwood Lumber which are included in non-entity fund balance with Treasury. These amounts were reported as a refund payable as of September 30, 2006 and a deposit fund liability as of September 30, 2005. During fiscal year 2006, an agreement was reached related to the litigation for duties related to the import of Canadian softwood lumber. As a result of this agreement, the Canadian Softwood Lumber duties previously collected and accrued interest totaling \$590 million will be refunded. The refunds will be distributed during fiscal year 2007.

**Other Liabilities.** Other public liabilities consist primarily of NFIP payable to insurance companies and the liability for deposit and suspense funds.

## 19. Leases

### A. Operating Leases

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, 2006, estimated future minimum lease commitments under operating leases for equipment and GSA controlled leases were as follows (in millions) (unaudited):

	GSA	Non-GSA	Total
FY 2007	\$869	\$137	\$1,006
FY 2008	887	126	1,013
FY 2009	903	124	1,027
FY 2010	925	124	1,049
FY 2011	955	127	1,082
After FY 2011	2,595	372	2,967
<b>Total Future Minimum Lease Payments</b>	<b>\$7,134</b>	<b>\$1,010</b>	<b>\$8,144</b>

The estimated future lease payments for GSA controlled leases are based on payments made during the year ended September 30, 2006.

### B. Capital Leases

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

Certain license agreements are 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.

As of September 30, 2006, estimated future minimum lease payments under capital leases for equipment were as follows (in millions) (unaudited):

	GSA	Non-GSA	Total
FY 2007	\$6	\$18	\$24
FY 2008	6	18	24
FY 2009	6	18	24
FY 2010	6	18	24
FY 2011	6	-	6
After FY 2011	70	-	70
<b>Total Future Minimum Lease Payments</b>	<b>100</b>	<b>72</b>	<b>172</b>
Less: Imputed interest and Executory costs	(52)	(10)	(62)
<b>Total Capital Lease Liability</b>	<b>\$48</b>	<b>\$62</b>	<b>\$110</b>

## 20. Insurance Liabilities

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

	2006 (Unaudited)	2005 (Unaudited)
National Flood Insurance Program	\$3,557	\$23,406
Cerro Grande Fire Assistance Act	10	27
<b>Total Insurance Liabilities</b>	<b>\$3,567</b>	<b>\$23,433</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 consisted of the following (in millions):

	2006 (Unaudited)	2005 (Unaudited)
Beginning Balance	\$23,406	\$1,357
Change in incurred losses	(2,281)	25,407
Less: Amounts paid during current period	(17,568)	(3,358)
<b>Total NFIP Liability at September 30</b>	<b>\$3,557</b>	<b>\$23,406</b>

The NFIP insurance liability represents an estimate of NFIP 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. As of September 30, 2005, the increase in incurred losses was primarily due to Hurricane Katrina which impacted the Gulf Coast in August 2005. The decrease in incurred losses recognized in fiscal year 2006 is the result of fewer loss events during the period resulting in a lower liability for unpaid losses and related loss adjustment expenses.

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).

### 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, 2006 and 2005, the liability for unpaid insurance expenses represents an estimate of the known probable and estimable losses that are unpaid as of September 30, 2006 and 2005, 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.

## 21. Commitments and Contingent Liabilities

### 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, 2006, was \$71 million, of which \$47 million is funded. The range of probable and estimable litigation is \$71 million to \$100 million. (At September 30, 2005, was \$247 million, of which \$26 million is funded). Asserted and pending legal claims for which loss is reasonably possible is estimated to range from \$68 million to \$2.7 billion at September 30, 2006, and \$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. The nature of probable and reasonably possible claims is litigation related to the Federal Tort Claims Act (FTCA), Oil Spill Liability Trust Fund, and various customs laws and regulations.

DHS management and general legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgement. In assessing contingencies related to legal proceedings that are pending against DHS, or unasserted claims that may result in such proceedings, general legal counsel evaluated 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 regardless of the source of funding used to pay the liability. 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 are disclosed.

### **B. Duty and Trade Refunds**

There are various trade related matters that fall under the jurisdiction of other Federal agencies, such as the Department of Commerce, which may result in refunds of duties, taxes and fees 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, 2006, and 2005, have been recorded.

### **C. Loaned Aircraft and Equipment**

The Department is generally liable to the DoD for damage or loss to aircraft on loan to CBP. As of September 30, 2006 and September 30, 2005, CBP had 16 aircraft loaned from DoD with an acquisition value of \$94 million (unaudited). No damage or aircraft losses were accrued as of September 30, 2006 and September 30, 2005.

### **D. Other Contractual Arrangements**

In addition to future lease commitments disclosed in Note 19, the Department is committed under contractual agreements for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all Department activities are disclosed in Note 30. For fiscal year 2006, DHS estimates \$67 million (unaudited) in obligations related to cancelled appropriations for which the Department has a contractual obligation for payment as well as an estimated \$41 million (unaudited) for contractual arrangements which may require future funding. For fiscal year 2005, DHS estimated \$26 million (unaudited) in obligations related to cancelled appropriations, for which the Department has a contractual obligation which may require future financial obligations.

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. TSA has received appropriations of \$240 million (unaudited) in fiscal year 2006 and \$269 million (unaudited) in fiscal year 2005 under this program, which is available for payment to the airports upon submission to TSA of an invoice for the modification costs incurred. As of September 30, 2006, TSA has received invoices or documentation for costs incurred totaling \$335 million (unaudited) related to these agreements. In addition to invoices or documentation received, TSA has accrued costs of \$28 million (unaudited) and \$267 million (unaudited) as of September 30, 2006 and 2005, respectfully.

## **22. Earmarked Funds**

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities or purposes. SSFAS No. 27 defines the following three criteria for determining an earmarked fund: 1) A statute committing the Federal Government to use specifically identified revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; 2) Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and 3) A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguished the earmarked fund from the Government's general revenues.

Earmarked Funds consisted of the following (in millions) (unaudited):

	Customs User Fees	Immigration Examination Fees	National Flood Insurance Program	All Other Earmarked Funds	Total Earmarked Funds
<b>Balance Sheet as of September 30, 2006</b>					
<b>ASSETS</b>					
Fund Balance with Treasury	\$761	\$819	\$138	\$843	\$2,561
Investments, Net	-	-	-	634	634
Accounts Receivable, Net	72	4	19	217	312
Cash and Other Monetary Assets	-	19	24	3	46
Taxes Receivables	61	-	-	-	61
Inventory and Related Property, Net	-	-	8	-	8
General Property, Plant, and Equipment, Net	-	6	34	-	40
Other	-	-	422	-	422
<b>Total Assets</b>	<b>\$894</b>	<b>\$848</b>	<b>\$645</b>	<b>\$1,697</b>	<b>\$4,084</b>
<b>LIABILITIES</b>					
Other Liabilities	\$96	\$840	\$22,370	\$88	\$23,394
<b>Total Liabilities</b>	<b>\$96</b>	<b>\$840</b>	<b>\$22,370</b>	<b>\$88</b>	<b>\$23,394</b>
<b>NET POSITION</b>					
Unexpended Appropriations	\$ -	\$ -	\$ -	\$18	\$18
Cumulative Results of Operations	798	8	(21,725)	1,591	(19,328)
<b>Total Liabilities and Net Position</b>	<b>\$894</b>	<b>\$848</b>	<b>\$645</b>	<b>\$1,697</b>	<b>\$4,084</b>
<b>Statement of Net Cost for the Year Ended September 30, 2006</b>					
Gross Program Costs	\$ -	\$1,590	\$(716)	\$1,474	\$2,348
Less: Earned Revenues	(1)	(1,721)	(2,321)	(376)	(4,419)
<b>Net Cost of Operations</b>	<b>\$(1)</b>	<b>\$(131)</b>	<b>\$(3,037)</b>	<b>\$1,098</b>	<b>\$(2,071)</b>
<b>Statement of Changes in Net Position for the Year Ended September 30, 2006</b>					
<b>Net Position Beginning of Period</b>	<b>\$797</b>	<b>\$(123)</b>	<b>\$(24,764)</b>	<b>\$1,414</b>	<b>\$(22,676)</b>
Net Cost of Operations	1	131	3,037	(1,098)	2,071
Appropriation Used	-	-	-	13	13
Non-exchange Revenue	-	-	-	2,516	2,516
Other	-	-	2	(1,236)	(1,234)
Change in Net Position	1	131	3,039	195	3,366
<b>Net Position, End of Period</b>	<b>\$798</b>	<b>\$8</b>	<b>\$(21,725)</b>	<b>\$1,609</b>	<b>\$(19,310)</b>

### Customs User Fees

In April 1986, the President signed the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985, which authorized the CBP to collect user fees for certain services. The law initially established processing fees for air and sea passengers, commercial trucks, rail cars, private vessels and aircraft, commercial vessels, dutiable mail packages, and CBP broker permits. An additional fee category, contained in tax reform legislation, for processing barges and bulk carriers for Canada and Mexico, was added later that year. The collection of the COBRA fees for CBP services began on July 7, 1986.

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

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

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

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

User fees are legislatively set as are the restrictions on the use of collections; all of which prevent CBP from adequately funding the associated services provided. Based on the statute, fee collections may be used to pay for inspectional overtime, excess pre-clearance costs, the hiring of inspectional personnel, purchasing of equipment, foreign language proficiency awards, and payment of related expenses using surplus monies available after overtime and pre-clearance costs are satisfied. The Customs User Fees are paid by the public.

### **Immigration Examination Fees**

In 1988, Congress established the Immigration Examination Fee Account (IEFA) and the fees deposited into the IEFA have been the primary source of funding for providing immigration and naturalization benefits, and other benefits as directed by Congress. The Immigration and Nationality Act (INA) provides for the collection of fees at a level that will ensure recovery of the full costs of providing adjudication and naturalization services, including the costs of providing similar services without charge to asylum applicants and other immigrants. The INA also states that the fees may recover administrative costs. This revenue remains available to provide immigration and naturalization benefits and the collection, safeguarding, and accounting for fees. The authority provided by section 286(m) of the INA permits USCIS to recover the full costs of providing all immigration adjudication and naturalization services, including those services provided to individuals other than those paying fees.

The primary sources of revenue are the application and petition fees that are collected during the course of the fiscal year and deposited into the Immigration Examinations Fee Account (TAFS 70X5088). In addition, the USCIS provides specific services to other federal agencies, such as production of Border Crossing Cards for the Department of State (DOS), that result in the collection of other revenues that are the result of intragovernmental flows.

In 1999, Congress authorized USCIS to collect a specific fee for petitions under a nonimmigrant temporary worker program and to retain a portion of the fee for cost related to the processing of these petitions. In 2005, Congress increased the total fee amount and set the portion that US Citizenship retains at five percent. The portion of the fees collected and retained by the USCIS during the fiscal year, are deposited into the H-1B Nonimmigrant Petitioner Account (TAFS 70X5016).

In 2005, Congress authorized an additional fraud detection and prevention fee on applications filed by employees to obtain visa or non immigrant workers. U.S. Citizenship and immigration Services retains one-third of the fraud prevention and detections fee to cover cost associated with an expanded fraud detection program. The portion of the fees, collected and retained by the USCIS during the fiscal year are deposited into the H-1B and L Fraud Prevention and Detection Account (TAFS 70X5389).

There has been no change in legislation during or subsequent to the reporting period and before the issuance of financial statements that significantly changes the purpose of the fund or redirects a material portion of the accumulated balance.

### **National Flood Insurance Program**

The National Flood Insurance Program (NFIP) was established by the National Flood Insurance Act of 1968. The purpose of NFIP is to better indemnify individuals for flood losses through insurance, reduce future flood damages through State and community floodplain management regulations, and reduce Federal expenditures for disaster assistance and flood control.

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

The National Flood Insurance Reform Act of 1994 reinforced the objective of using insurance as the preferred mechanism for disaster assistance by expanding mandatory flood insurance purchase requirements and by effecting a prohibition on further flood disaster assistance for any property where flood insurance, after having been mandated as a condition for receiving disaster assistance, is not mandated.

The Bunning-Bereuter-Blumenauer Flood Insurance Reform Act (FIRA) of 2004 provides additional tools for addressing the impact of repetitive loss properties on the National Flood Insurance Fund. It introduced a pilot project through fiscal year 2009 that defines severe repetitive loss properties, authorizes additional funds for mitigation projects, and mandates a 50% increase of premiums for property owners who decline a mitigation offer, along with an appeal process. It also modifies the Flood Mitigation Assistance (FMA) Program by doubling the annual authorized funding level to \$40 million and directing it to give priority to those properties that are in the best interest of the National Flood Insurance Fund.

The NFIP requires all partners (Write Your Own (WYO) Companies) in the program to submit financial statements and statistical data to the Bureau & Statistical Agent (B&SA) on a monthly basis. This information is reconciled and the WYO companies are required to correct any variances.

Since this program is an insurance program for which the Department pays claims to policyholders whose houses have been flooded. The WYO companies that participate in the program have authority to use Departmental funds (revenue and other financing sources) to respond to the obligations of the policyholders. Congress has mandated that the NFIP funds are to only be used to pay claims caused by flooding.

The NFIP sources of revenue and other financing comes from premiums collected to insure policyholders homes and the borrowing authority provided to our program from Congress. The resources are inflows to the Government and are not the result of intragovernmental flows.

### All Other Earmarked Funds

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

- 70X0200 Office of the Inspector General, Department of Homeland Security
- 70 6/7 0200 Office of the Inspector General, Department of Homeland Security
- 70X0715 Radiological Emergency Preparedness Program, Emergency Preparedness and Response, Department of Homeland Security
- 70X5089 Customs and Border Protection, Land Border Inspection Fees, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5087 Customs and Border Protection, Immigration User Fees, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5126 Breach Bond/Detention Fund, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5378 Student and Exchange Visitor Program, Border and Transportation Security, Department of Homeland Security; 110 Stat. 3009-706, Sec. (e)(4)(B)
- 70X5382 Immigration User Fee Account, BICE, Department of Homeland Security; 116 Stat. 2135
- 70X5385 Aviation Security Capital Fund, Transportation Security Administration, Department of Homeland Security; 117 Stat. 2567(h)(1)
- 70X5436 Radiological Emergency Preparedness Fund, Department of Homeland Security; 116 Stat. 2135
- 70X5451 Immigration Enforcement Account, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5464 Flood Map Modernization Fund, Emergency Preparedness and Response, Department of Homeland Security; 116 Stat. 2135
- 70X5694 User Fees, Small Airports, U.S. Customs Service, Department of Homeland Security; 116 Stat. 2135
- 70X8149 Boat Safety, Coast Guard, Department of Homeland Security; 116 Stat. 2135
- 70X8244 Gifts and Donations, Department Management, Department of Homeland Security; 116 Stat. 2135 (FEMA REPORTED)
- 70X8312 Oil Spill Liability Trust Fund, Coast Guard, Department of Homeland Security; 116 Stat. 2135
- 70 8314 Trust Fund Share of Expenses, Coast Guard, Department of Homeland Security; 116 Stat. 2135
- 70X8349 Oil Spill Recovery, Coast Guard, Department of Homeland Security; 116 Stat. 2135
- 70X8533 General Gift Fund, Coast Guard, Department of Homeland Security; 116 Stat. 2135
- 70X8597 Salaries and Expenses, Violent Crime Reduction Program, Immigration Services, Department of Homeland Security; 116 Stat. 2135
- 70X8598 Violent Crime Reduction Program, Immigration Services, Department of Homeland Security; 116 Stat. 2135
- 70X8870 Harbor Maintenance Fee Collection, U.S. Customs Service, Department of Homeland Security; 116 Stat. 2135
- 20X8185 Oil Spill Liability Trust Fund; 103 Stat. 2363, 2364

## 23. Intragovernmental Costs and Exchange Revenue

For the year ended September 30, 2006 (in millions) (Unaudited)

Directorates and Other Components	Intragovernmental Consolidated	With the Public	Total
<b>United States VISIT</b>			
Gross Cost	\$44	\$219	\$263
Less Earned Revenue	(1)	-	(1)
<b>Net Cost</b>	<b>43</b>	<b>219</b>	<b>262</b>
<b>United States Customs and Border Protection</b>			
Gross Cost	1,787	5,348	7,135
Less Earned Revenue	(47)	(106)	(153)
<b>Net Cost</b>	<b>1,740</b>	<b>5,242</b>	<b>6,982</b>
<b>United States Coast Guard</b>			
Gross Cost	1,105	8,906	10,011
Less Earned Revenue	(332)	(92)	(424)
<b>Net Cost</b>	<b>773</b>	<b>8,814</b>	<b>9,587</b>
<b>United States Citizenship and Immigration Services</b>			
Gross Cost	487	1,122	1,609
Less Earned Revenue	(15)	(1,714)	(1,729)
<b>Net Cost</b>	<b>472</b>	<b>(592)</b>	<b>(120)</b>
<b>Federal Emergency Management Agency</b>			
Gross Cost	6,039	19,621	25,660
Less Earned Revenue	(117)	(2,326)	(2,443)
<b>Net Cost</b>	<b>5,922</b>	<b>17,295</b>	<b>23,217</b>
<b>Federal Law Enforcement Training Center</b>			
Gross Cost	26	286	312
Less Earned Revenue	(31)	(2)	(33)
<b>Net Cost</b>	<b>(5)</b>	<b>284</b>	<b>279</b>
<b>Preparedness Directorate</b>			
Gross Cost	589	3,206	3,795
Less Earned Revenue	(3)	(23)	(26)
<b>Net Cost</b>	<b>586</b>	<b>3,183</b>	<b>3,769</b>
<b>United States Immigration and Customs Enforcement</b>			
Gross Cost	1,169	3,318	4,487
Less Earned Revenue	(757)	(100)	(857)
<b>Net Cost</b>	<b>412</b>	<b>3,218</b>	<b>3,630</b>
<b>United States Secret Service</b>			
Gross Cost	403	1,068	1,471
Less Earned Revenue	(18)	-	(18)
<b>Net Cost</b>	<b>385</b>	<b>1,068</b>	<b>1,453</b>
<b>Science and Technology Directorate</b>			
Gross Cost	467	376	843
Less Earned Revenue	-	-	-
<b>Net Cost</b>	<b>467</b>	<b>376</b>	<b>843</b>
<b>Transportation Security Administration</b>			
Gross Cost	1,194	4,849	6,043
Less Earned Revenue	(5)	(2,472)	(2,477)
<b>Net Cost</b>	<b>1,189</b>	<b>2,377</b>	<b>3,566</b>
<b>Department Operations and Other</b>			
Gross Cost	288	564	852
Less Earned Revenue	(2)	-	(2)
<b>Net Cost</b>	<b>286</b>	<b>564</b>	<b>850</b>
<b>Total Department of Homeland Security</b>			
Gross Cost	\$13,598	\$48,883	\$62,481
Less Earned Revenue	(1,328)	(6,835)	(8,163)
<b>Net Cost</b>	<b>\$12,270</b>	<b>\$42,048</b>	<b>\$54,318</b>

For the year ended September 30, 2005 (in millions) (Unaudited) (Restated)

Directorates and Other Components	Intragovernmental Consolidated	With the Public	Total
<b>United States VISIT</b>			
Gross Cost	\$18	\$154	\$172
Less Earned Revenue	-	-	-
<b>Net Cost</b>	<b>18</b>	<b>154</b>	<b>172</b>
<b>United States Customs and Border Protection</b>			
Gross Cost	1,188	5,871	7,059
Less Earned Revenue	(33)	(586)	(619)
<b>Net Cost</b>	<b>1,155</b>	<b>5,285</b>	<b>6,440</b>
<b>United States Coast Guard</b>			
Gross Cost	980	8,165	9,145
Less Earned Revenue	(133)	(87)	(220)
<b>Net Cost</b>	<b>847</b>	<b>8,078</b>	<b>8,925</b>
<b>United States Citizenship and Immigration Services</b>			
Gross Cost	525	750	1,275
Less Earned Revenue	(14)	(1,608)	(1,622)
<b>Net Cost</b>	<b>511</b>	<b>(858)</b>	<b>(347)</b>
<b>Federal Emergency Management Agency</b>			
Gross Cost	1,695	37,948	39,643
Less Earned Revenue	(106)	(2,053)	(2,159)
<b>Net Cost</b>	<b>1,589</b>	<b>35,895</b>	<b>37,484</b>
<b>Federal Law Enforcement Training Center</b>			
Gross Cost	27	230	257
Less Earned Revenue	(30)	(1)	(31)
<b>Net Cost</b>	<b>(3)</b>	<b>229</b>	<b>226</b>
<b>Preparedness Directorate</b>			
Gross Cost	762	1,939	2,701
Less Earned Revenue	(2)	(18)	(20)
<b>Net Cost</b>	<b>760</b>	<b>1,921</b>	<b>2,681</b>
<b>United States Immigration and Customs Enforcement</b>			
Gross Cost	1,137	2,677	3,814
Less Earned Revenue	(557)	(85)	(642)
<b>Net Cost</b>	<b>580</b>	<b>2,592</b>	<b>3,172</b>
<b>United States Secret Service</b>			
Gross Cost	361	1,144	1,505
Less Earned Revenue	(22)	-	(22)
<b>Net Cost</b>	<b>339</b>	<b>1,144</b>	<b>1,483</b>
<b>Science and Technology Directorate</b>			
Gross Cost	484	259	743
Less Earned Revenue	(12)	-	(12)
<b>Net Cost</b>	<b>472</b>	<b>259</b>	<b>731</b>
<b>Transportation Security Administration</b>			
Gross Cost	1,307	5,216	6,523
Less Earned Revenue	(20)	(2,235)	(2,255)
<b>Net Cost</b>	<b>1,287</b>	<b>2,981</b>	<b>4,268</b>
<b>Department Operations and Other</b>			
Gross Cost	273	369	642
Less Earned Revenue	(11)	-	(11)
<b>Net Cost</b>	<b>262</b>	<b>369</b>	<b>631</b>
<b>Total Department of Homeland Security</b>			
Gross Cost	\$8,757	\$64,722	\$73,479
Less Earned Revenue	(940)	(6,673)	(7,613)
<b>Net Cost</b>	<b>\$7,817</b>	<b>\$58,049</b>	<b>\$65,866</b>



Intragovernmental costs represent exchange transactions made between two reporting entities within the Federal government and are presented separately from costs with the public (exchange transactions made between the reporting entity and a non-Federal entity). Intragovernmental exchange revenue is disclosed separately from exchange revenue with the public. 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. Non-exchange revenues consist primarily of user fees collected by CBP to off-set certain costs of operations.

## 24. Suborganization Costs by DHS Strategic Goals

Operating costs are summarized in the Statement of Net Cost by responsibility segment, as applicable to the reporting period. The net cost of operations is the gross (i.e., total) cost incurred by 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.

To integrate performance and financial information, as required by the *President's Management Agenda* and the *Government Performance and Results Act*, a supplemental schedule of net cost is included in this note, in which costs by component are allocated to Departmental strategic goals.

### Net Costs of Department Sub-organizations by Strategic Goals (in millions) For the year ended September 30, 2006 (Unaudited)

	Awareness	Prevention	Protection	Response	Recovery	Service	Organizational Excellence	TOTAL
US VISIT	\$ -	\$144	\$ -	\$ -	\$ -	\$118	\$ -	\$262
US Customs and Border Protection	-	6,535	-	-	-	447	-	6,982
US Coast Guard	1,055	4,184	1,552	1,231	57	1,508	-	9,587
US Citizenship and Immigration Services	-	(34)	-	-	-	(86)	-	(120)
Federal Emergency Management Agency	-	-	13,462	4,509	5,246	-	-	23,217
Federal Law Enforcement Training Center	-	279	-	-	-	-	-	279
Preparedness Directorate	214	-	3,555	-	-	-	-	3,769
US Immigration and Customs Enforcement	-	3,313	317	-	-	-	-	3,630
US Secret Service	-	-	1,453	-	-	-	-	1,453
Science and Technology Directorate	133	460	78	136	36	-	-	843
Transportation Security Administration	4	3,370	192	-	-	-	-	3,566
Departmental Operations and Other	86	-	-	-	-	-	764	850
<b>TOTAL Department</b>	<b>\$1,492</b>	<b>\$18,251</b>	<b>\$20,609</b>	<b>\$5,876</b>	<b>\$5,339</b>	<b>\$1,987</b>	<b>\$764</b>	<b>\$54,318</b>

**Net Costs of Department Sub-organizations by Strategic Goals (in millions)**  
**For the year ended September 30, 2005 (Unaudited) (Restated)**

	Awareness	Prevention	Protection	Response	Recovery	Service	Organizational Excellence	TOTAL
US VISIT	\$ -	\$100	\$ -	\$ -	\$ -	\$72	\$ -	\$172
US Customs and Border Protection	-	5,939	-	-	-	501	-	6,440
US Coast Guard	893	3,437	1,914	1,199	60	1,422	-	8,925
US Citizenship and Immigration Services	-	(97)	-	-	-	(250)	-	(347)
Federal Emergency Management Administration	-	-	25,790	2,272	9,422	-	-	37,484
Federal Law Enforcement Training Center	-	226	-	-	-	-	-	226
Preparedness Directorate	263	-	2,418	-	-	-	-	2,681
US Immigration and Customs Enforcement	-	2,958	214	-	-	-	-	3,172
US Secret Service	-	-	1,483	-	-	-	-	1,483
Science and Technology Directorate	114	417	174	26	-	-	-	731
Transportation Security Administration	7	3,929	332	-	-	-	-	4,268
Departmental Operations and Other	-	-	-	-	-	-	631	631
<b>TOTAL Department</b>	<b>\$1,277</b>	<b>\$16,909</b>	<b>\$32,325</b>	<b>\$3,497</b>	<b>\$9,482</b>	<b>\$1,745</b>	<b>\$631</b>	<b>\$65,866</b>

**25. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations**

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).

Year Ended September 30, 2006 (Unaudited):	Apportionment Category A	Apportionment Category B	Exempt from Apportionment	Total
Obligations Incurred - Direct	\$28,126	\$58,004	\$993	\$87,123
Obligations Incurred - Reimbursable	3,492	788	9	4,289
<b>Total Obligations Incurred</b>	<b>\$31,618</b>	<b>\$58,792</b>	<b>\$1,002</b>	<b>\$91,412</b>

Year Ended September 30, 2005 (Unaudited) (Restated):	Apportionment Category A	Apportionment Category B	Exempt from Apportionment	Total
Obligations Incurred - Direct	\$27,071	\$36,423	\$853	\$64,347
Obligations Incurred - Reimbursable	3,740	542	(1)	4,281
<b>Total Obligations Incurred</b>	<b>\$30,811</b>	<b>\$36,965</b>	<b>\$852</b>	<b>\$68,628</b>

The increase in payments of Apportionment Category B, Obligations Incurred - Direct of \$36,423 million in fiscal year 2005 to \$58,004 million in fiscal year 2006 is due to FEMA's approved claims from Hurricane Katrina which were obligated and paid during fiscal year 2006.

## 26. Available Borrowing Authority

The Department, through FEMA's NFIP, has total borrowing authority of \$21 billion (unaudited), as of September 30, 2006, available for disaster relief purposes. The \$21 billion borrowing authority includes \$18 billion in current year borrowing authority and \$3 billion in borrowing authority carried forward from fiscal year 2005. At the end of the fiscal year, borrowing authority is reduced by the amount of any unused portion. As of September 30, 2006, FEMA exercised \$16.8 billion in borrowing authority; the remaining balance of \$4.2 billion represents the total unused portion. 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.

## 27. 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 overpayments of taxes, duties, and fees. Federal tax revenue received from taxpayers is not available for use in the operation of the Department and is not reported on the Statement of Net Cost. Likewise, the refunds of overpayments are not available for use by the Department in its operations.
- 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 16), and payroll contributions received from current employees.

These appropriations are not subject to budgetary ceilings established by Congress. CBP's refunds payable at year-end are not subject to funding restrictions.

## 28. Legal Arrangements Affecting Use of Unobligated Balances

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

Included in the cumulative results of operations for special funds is \$1.2 billion (unaudited) and \$760 million (unaudited) at September 30, 2006 and 2005, 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 \$761 million (unaudited) and \$741 million (unaudited) at September 30, 2006 and 2005, 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.

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

The table below documents the material differences between the 2005 Statement of Budgetary Resources and the actual amounts reported for 2005 in the Budget of the United States Government. Since the fiscal year 2006 financial statements will be reported prior to the release of the Budget of the United States Government, DHS is reporting for 2005 only. Typically, the Budget of the United States Government with the 2006 actual data is published in the February of the subsequent year. Once published the 2006 actual data will be available that OMB website, [www.whitehouse.gov/omb](http://www.whitehouse.gov/omb).

(in millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
<b>2005 Actual Balances per the 2007 President's Budget</b>	\$121,856	\$66,065	\$4,427	\$43,727
<b>Reconciling Items:</b>				
Accounts that are expired that are not included in Budget of the United States.	1,069	413	-	-
Fund Symbols Not Included in the Budget of the United States.	1,754	1,117	26	(3,039)
Resources Permanently Not Available	(12)	-	-	-
Adjustment for the overestimate of Hurricane Katrina obligations recorded in the Statement of Budgetary Resources, but not the Budget of the United States	1,019	1,021	-	-
Fiscal year 2005 Revenue Recognition/Cash Collection Timing Differences	-	-	98	-
Miscellaneous Differences	(153)	12	(3)	(411)
<b>Per the 2005 SBR (Unaudited)</b>	<b>\$125,533</b>	<b>\$68,628</b>	<b>\$4,548</b>	<b>\$40,277</b>

## 30. Undelivered Orders, End of Period

An undelivered order exists when a valid obligation has occurred and funds have been reserved, but the goods or services have not been delivered. Undelivered orders for the periods ended September 30, 2006 and 2005 were \$37,312 million (unaudited) and \$34,611 million (unaudited), respectively.

## 31. Explanation for the Difference Between the Appropriations Received reported on the Statement of Budgetary Resources and on the Statement of Changes in Net Position

The Statement of Budgetary Resources reported \$45,748 million (unaudited) for appropriations received for fiscal year 2006. This balance does not agree to the balance reported on the Statement of Changes in Net Position of \$39,529 (unaudited) for fiscal year 2006. The difference is primarily related to 1) \$5,177 million in trust and special fund receipts not reflected in the unexpended appropriations section of the Statement of Changes in Net Position, 2) \$42 million for the decrease in amounts appropriated from specific Treasury-managed trust funds, 3) \$974 million related to refunds and drawbacks, and 4) \$110 million for receipts unavailable for obligations upon collection.

In fiscal year 2005, appropriations received on the SBR of \$105,147 million (unaudited) did not equal the amounts reported on the Statement of Changes in Net Position of \$99,707 million (unaudited) due to: 1) \$4,544 million of trust and special receipts that are not reflected in the unexpended appropriation section of the SCNP; 2) \$33 million of the 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.

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

In fiscal year 2006, the differences between the amounts reported as liabilities not covered by budgetary resources on the balance sheet and amounts reported as components requiring or generating resources in future periods on the Statement of Financing were primarily due to an increase in Debt by approximately \$16.9 billion (unaudited) and a decrease in several uncovered liabilities by approximately \$19.4 billion (unaudited), primarily related to the Insurance Liabilities. In both instances, these changes do not affect the amounts reported as Components Requiring or Generating Resources in Future Periods on the Statement of Financing but do effect the change in the uncovered liabilities. In fiscal year 2005, the differences were primarily due to the increase in the insurance liability for claims and claims settlement of \$21.6 billion, and the change in the USCG actuarial pension liability of \$1.7 billion and other USCG military post employment liability of \$1 billion, which due not generate net cost of operations or require the use of budgetary resources.

### 33. Custodial Revenues

The Department collects revenue from a variety of duties, excise taxes and various other fees, some of which are refunded. Refunds and drawbacks by entry year for the fiscal years ended September 30 (in millions):

Entry Year	2006 (Unaudited)	2005 (Unaudited)
2005	\$596	\$684
2004	142	139
2003	90	42
2002	40	21
Prior Years	292	273
<b>Total Refunds and Drawbacks</b>	<b>\$1,160</b>	<b>\$1,159</b>

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 are 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. Revenues are reported at the time of collection. 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. Fees collected by USCIS for nonimmigrant petitions must be submitted with the petition. The portion of fees that are subsequently remitted to other Federal agencies are recorded as custodial revenue at the time of collection.

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

- **Duties:** amounts collected on imported goods 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. Disbursements from the refunds and drawback account for the fiscal years ended September 30, 2006 and 2005, consisted of the following (in millions):

	2006 (Unaudited)	2005 (Unaudited)
Refunds	\$646	\$729
Drawback	514	430
<b>Total Refunds and Drawbacks</b>	<b>\$1,160</b>	<b>\$1,159</b>

The disbursements include interest payments of \$111 million and \$33 million, for the fiscal years ended September 30, 2006 and 2005, respectively. Refunds and other payments funded from collections rather than the refunds and drawback account totaled \$269 million and \$354 million for the fiscal years ended September 30, 2006 and 2005, respectively.

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, 2006 and 2005, consisted of the following (in millions):

	2006 (Unaudited)	2005 (Unaudited)
Antidumping and countervailing duty refunds	\$381	\$124
Interest	86	14
<b>Total Antidumping and Countervailing Duty Refunds</b>	<b>\$467</b>	<b>\$138</b>



## 34. Restatements

### A. TSA Restatement (Unaudited)

**Security Fee Reporting.** The Department has restated the fiscal year 2005 Statements of Budgetary Resources and the Changes in Net Position and related footnotes as a result of an error in the accounting for passenger and air carrier aviation security fees. In prior years the security fees collected to provide aviation security were recorded as revenue. At the end of each fiscal year the TSA recorded a rescission in an amount equal to the security fees and appropriated funds were returned to the Treasury General Fund and a negative warrant was received from Treasury. The Statement of Budgetary Resources presented a reduction of the appropriation, but the general ledger showed fees being reduced by the negative warrant received from Treasury. New procedures in accordance with Public Law 108-90 will show a reduction of the appropriation received instead of showing a rescission of the appropriation. The fiscal year 2005 financial statements have been restated to comply with the *Department of Homeland Security Appropriations Act for Fiscal Year 2004*, which requires that the sum appropriated from the General Fund will be reduced on a dollar for dollar basis as offsetting receipts are received during the fiscal year.

**Unrecorded Obligations Resulting in a Potential Anti-Deficiency.** TSA identified \$248 million of unrecorded obligations resulting in an adjustment to the fiscal year 2004 Statement of Budgetary Resources, which carries forward to the beginning balances to the fiscal year 2005 Statement of Budgetary Resources. The effect of the restatement is a decrease to the unobligated balance carried forward from fiscal year 2004 and an increase to the beginning obligated balance carried forward from fiscal year 2004. As a result of the unrecorded obligations, a potential violation of the *Anti-Deficiency Act* may have occurred.

### B. USCG Restatement (Unaudited)

**Postretirement Medical Liability.** The Department has restated the fiscal year 2005 Balance Sheet and Statements of Net Cost, Changes in Net Position and Financing as a result of a correction of an error of the actuarial determined medical liability. The USCG initiated a follow-up review of its prior medical expense reports. The review indicated that a substantial amount of prior expenditures were not accurately reported to the actuary firm which led to a re-calculation of their FY 2005 Postretirement Medical liability. The revaluation of the FY 2005 medical liability was \$444 million. The Balance Sheet presented a reduction of this amount to the Federal Employee and Veteran Benefits line and a corresponding increase to the Cumulative Results of Operations for FY 2005. This restatement also resulted in a decrease to the USCG Gross Cost which affected the Statements of Changes in Net Position and Financing.

### C. USCIS, PRE, and ICE Restatement (Unaudited)

During 2006, several components began implementation of corrective action plans to address certain control deficiencies. As a result of these corrective actions three Components, ICE, USCIS, and PRE, restated their fiscal year 2005 financial statements to correct errors in accounting. The restatement affected FBWT, accounts payable, PP&E, and the associated budgetary balances. These restatements affected each of the principal financial statements, except for the Statement of Custodial Activity.

### D. FLETC Restatement (Unaudited)

The Department restated their fiscal year 2005 financial statements due to errors discovered in FLETC's reporting of the environmental liabilities and accounting changes of operating materials and supplies balances. During 2006, FLETC determined that the environmental liabilities were understated by approximately \$7 million, while the accounting treatment of the operating materials and supplies valued at approximately \$8 million was changes to the consumption method to purchase method due to improper valuation. These restatements affected the Balance Sheet, the Statement of Changes in Net Position, and the Statement of Financing.

### E. Other Restatements (Unaudited)

As a result of new or updated reporting requirements, including OMB Circular A-136, and the restatements completed based on errors noted by the components, the Department reviewed the fiscal year 2005 financial statements and noted errors that were not attributable to a single component, but rather were related to the reporting of component information. As a result, the Department processed a \$396 million restatement to the Distributed Offsetting Receipts reported on the Statement of Budgetary Resources and the Statement of Financing.

The effects of the restatement on the fiscal year 2005 financial statements are presented below for all principles financial statement, except for the Statement of Custodial Activity.

BALANCE SHEET, in millions	Original 2005	Effects of Restatements	Restated 2005	Description Reference
<b>ASSETS</b>				
<b>Intragovernmental</b>				
Fund Balance With Treasury	\$97,004	\$8	\$97,012	C
Investments, Net	738	-	738	
Accounts Receivable	217	-	217	
Other				
Advances and Prepayments	2,937	-	2,937	
Due from Treasury	144	-	144	
<b>Total Intragovernmental</b>	<b>\$101,040</b>	<b>\$8</b>	<b>\$101,048</b>	
Cash and Other Monetary Assets	\$78	\$ -	\$78	
Accounts Receivable, Net	532	-	532	
Taxes, Duties, and Trade Receivables, Net	1,400	-	1,400	
Direct Loans, Net	-	-	-	
Inventory and Related Property, Net	506	(8)	498	D
General Property, Plant, and Equipment, Net	10,470	(10)	10,460	C
Other				
Advances and Prepayments	480	-	480	
<b>TOTAL ASSETS</b>	<b>\$114,506</b>	<b>\$(10)</b>	<b>\$114,496</b>	
<b>LIABILITIES</b>				
<b>Intragovernmental</b>				
Accounts Payable	\$870	\$(5)	\$865	C
Debt	226	-	226	
Other				
Due to the General Fund	1,434	-	1,434	
Accrued FECA Liability	358	-	358	
Other	270	(18)	252	C
<b>Total Intragovernmental</b>	<b>\$3,158</b>	<b>\$(23)</b>	<b>\$3,135</b>	
Accounts Payable	\$3,329	\$(76)	\$3,253	C
Federal Employee and Veteran Benefits	30,494	(444)	30,050	B
Environmental and Disposal Liabilities	172	7	179	D
Other				
Accrued Payroll	1,372	(6)	1,366	C
Deferred Revenue and Advances from Others	2,014	-	2,014	
Deposit Liability for Canadian Softwood Lumber	4,706	-	4,706	
Insurance Liabilities	23,433	-	23,433	
Refunds and Drawbacks	118	-	118	
Other	949	9	958	C
<b>Total Liabilities</b>	<b>\$69,745</b>	<b>\$(533)</b>	<b>\$69,212</b>	
<b>Net Position</b>				
Unexpended Appropriations	\$87,166	\$(35)	\$87,131	C
Cumulative Results of Operations-Other Funds	(42,405)	558	(41,847)	B, C, D
<b>Total Net Position</b>	<b>44,761</b>	<b>523</b>	<b>45,284</b>	
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$114,506</b>	<b>\$(10)</b>	<b>\$114,496</b>	

STATEMENT OF NET COST, in millions	Original 2005	Effects of Restatements	Restated 2005	Description Reference
<b>Directorates and Other Components</b>				
<b>United States VISIT</b>				
Gross Cost	\$172	\$ -	\$172	
Less Earned Revenue	-	-	-	
<b>Net Cost</b>	<b>172</b>	<b>-</b>	<b>172</b>	
<b>United States Customs and Border Protection</b>				
Gross Cost	7,059	-	7,059	
Less Earned Revenue	(619)	-	(619)	
<b>Net Cost</b>	<b>6,440</b>	<b>-</b>	<b>6,440</b>	
<b>United States Coast Guard</b>				
Gross Cost	9,589	(444)	9,145	B
Less Earned Revenue	(220)	-	(220)	
<b>Net Cost</b>	<b>9,369</b>	<b>(444)</b>	<b>8,925</b>	
<b>United States Citizenship and Immigration Services</b>				
Gross Cost	1,291	(16)	1,275	C
Less Earned Revenue	(1,622)	-	(1,622)	
<b>Net Cost</b>	<b>(331)</b>	<b>(16)</b>	<b>(347)</b>	
<b>Federal Emergency Management Agency</b>				
Gross Cost	39,643	-	39,643	
Less Earned Revenue	(2,159)	-	(2,159)	
<b>Net Cost</b>	<b>37,484</b>	<b>-</b>	<b>37,484</b>	
<b>Federal Law Enforcement Training Center</b>				
Gross Cost	257	-	257	
Less Earned Revenue	(31)	-	(31)	
<b>Net Cost</b>	<b>226</b>	<b>-</b>	<b>226</b>	
<b>Preparedness Directorate</b>				
Gross Cost	2,701	-	2,701	
Less Earned Revenue	(20)	-	(20)	
<b>Net Cost</b>	<b>2,681</b>	<b>-</b>	<b>2,681</b>	
<b>United States Immigration and Customs Enforcement</b>				
Gross Cost	3,893	(79)	3,814	C
Less Earned Revenue	(642)	-	(642)	
<b>Net Cost</b>	<b>3,251</b>	<b>(79)</b>	<b>3,172</b>	

<b>STATEMENT OF NET COST, in millions</b>	<b>Original 2005</b>	<b>Effects of Restatements</b>	<b>Restated 2005</b>	<b>Description Reference</b>
<b><i>United States Secret Service</i></b>				
Gross Cost	1,505	-	1,505	
Less Earned Revenue	(22)	-	(22)	
<b>Net Cost</b>	<b>1,483</b>	<b>-</b>	<b>1,483</b>	
<b><i>Science and Technology Directorate</i></b>				
Gross Cost	743	-	743	
Less Earned Revenue	(12)	-	(12)	
<b>Net Cost</b>	<b>731</b>	<b>-</b>	<b>731</b>	
<b><i>Transportation and Security Administration</i></b>				
Gross Cost	6,523	-	6,523	
Less Earned Revenue	(2,255)	-	(2,255)	
<b>Net Cost</b>	<b>4,268</b>	<b>-</b>	<b>4,268</b>	
<b><i>Department Operations and Other</i></b>				
Gross Cost	642	-	642	
Less Earned Revenue	(11)	-	(11)	
<b>Net Cost</b>	<b>631</b>	<b>-</b>	<b>631</b>	
<b>NET COST OF OPERATIONS</b>	<b>\$66,405</b>	<b>\$(539)</b>	<b>\$65,866</b>	

<b>STATEMENT OF CHANGES IN NET POSITION, in millions</b>	<b>Original 2005</b>	<b>Effects of Restatements</b>	<b>Restated 2005</b>	<b>Description Reference</b>
<b>Cumulative Results of Operations</b>				
Beginning Balances	\$(17,017)	\$ -	\$(17,017)	
Adjustments:				
Changes in accounting principles	-	(8)	(8)	D
Corrections of Errors	(127)	(7)	(134)	D
Beginning balance, as adjusted	<b>\$(17,144)</b>	<b>\$(15)</b>	<b>\$(17,159)</b>	
<b>Budgetary Financing Sources:</b>				
Appropriations Used	\$38,034	\$34	\$38,068	C
Non-Exchange Revenue	2,315	-	2,315	
Donations and Forfeitures of Cash and Cash Equivalents	3	-	3	
Transfers in/out without Reimbursement	265	-	265	
Other	(143)	-	(143)	
<b>Other Financing Sources (Non-Exchange):</b>				
Donations and Forfeitures of Property	8	-	8	
Transfers in/out reimbursement	11	-	11	
Imputed Financing	651	-	651	
Total Financing Sources	41,144	34	41,178	
Net Cost of Operations	(66,405)	539	(65,866)	B, C
Net Change	<b>(25,261)</b>	<b>573</b>	<b>(24,688)</b>	
<b>Cumulative Results of Operations</b>	<b>\$(42,405)</b>	<b>\$558</b>	<b>\$(41,847)</b>	
<b>Unexpended Appropriations:</b>				
Beginning Balance	\$25,504	\$-	\$25,504	
Adjustments:				
Corrections of errors	163	-	163	
Beginning Balance, as adjusted	<b>\$25,667</b>	<b>\$ -</b>	<b>\$25,667</b>	
<b>Budgetary Financing Sources:</b>				
Appropriations Received	\$101,251	\$(1,544)	\$99,707	A
Appropriations transferred in/out	158	-	158	
Other Adjustments	(1,876)	1,543	(333)	A
Appropriations Used	(38,034)	(34)	(38,068)	C
Total Budgetary Financing Sources	61,499	(35)	61,464	
Total Unexpended Appropriations	<b>87,166</b>	<b>(35)</b>	<b>87,131</b>	
<b>NET POSITION</b>	<b>\$44,761</b>	<b>\$523</b>	<b>\$45,284</b>	

STATEMENT OF BUDGETARY RESOURCES, in millions	Original 2005		Effects of Restatements		Restated 2005		Description Reference
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	
<b>BUDGETARY RESOURCES</b>							
Unobligated Balance, brought forward October 1	\$8,392	\$ -	\$(248)	\$ -	\$8,144	\$ -	A
Recoveries of Prior Year Unpaid Obligations	1,431	-	87	-	1,518	-	C
Budget Authority:							
Appropriations	106,691	-	(1,544)	-	105,147	-	A
Borrowing Authority	2,000	26	-	-	2,000	26	
Earned:							
Collected	7,708	8	14	-	7,722	8	C
Change in Receivable from Federal Sources	(142)	-	-	-	(142)	-	
Change in Unfilled Customer Orders:							
Advance Received	571	-	-	-	571	-	
Without Advance From Federal Sources	569	-	-	-	569	-	
Expenditure transfers from trust funds	50	-	-	-	50	-	
Subtotal	117,447	34	(1,530)	-	115,917	34	
Non-expenditure transfers, net; anticipated and actual	337	-	-	-	337	-	
Permanently Not Available	(1,953)	(8)	1,544	-	(409)	(8)	A
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$125,654</b>	<b>\$26</b>	<b>\$(147)</b>	<b>\$ -</b>	<b>\$125,507</b>	<b>\$26</b>	



	Original 2005		Effects of Restatements		Restated 2005	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
<b>STATEMENT OF BUDGETARY RESOURCES,</b>						
<b>In millions</b>						
<b>STATUS OF BUDGETARY RESOURCES</b>						
Obligations Incurred:						
Direct	\$64,227	\$ -	\$120	\$ -	\$64,347	\$ -
Reimbursable	4,394	-	(113)	-	4,281	-
Subtotal	<b>68,621</b>	-	<b>7</b>	-	<b>68,628</b>	-
Unobligated Balance:						
Apportioned	51,811	26	6	-	51,817	26
Exempt from Apportionment	45	-	-	-	45	-
Subtotal	<b>51,856</b>	<b>26</b>	<b>6</b>	-	<b>51,862</b>	<b>26</b>
Unobligated Balance Not Available	5,177	-	(160)	-	5,017	-
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$125,654</b>	<b>\$26</b>	<b>\$(147)</b>	<b>\$ -</b>	<b>\$125,507</b>	<b>\$26</b>

	Original 2005		Effects of Restatements		Restated 2005		Description Reference
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non- Budgetary Credit Reform Financing Accounts	Budgetary	Non- Budgetary Credit Reform Financing Accounts	
<b>STATEMENT OF BUDGETARY RESOURCES, in millions</b>							
<b>CHANGE IN OBLIGATED BALANCE</b>							
Obligated Balance, Net							
Unpaid obligations brought forward, October 1	\$26,184	\$ -	\$248	\$ -	\$26,432	\$ -	A
Less: Uncollected customer payments from Federal Sources, brought forward, October 1	(1,418)	-	-	-	(1,418)	-	
Total unpaid obligated balance, net	24,766	-	248	-	25,014	-	
Obligations incurred, net	68,621	-	7	-	68,628	-	C
Less: Gross Outlays	(53,175)	-	-	-	(53,175)	-	
Obligated balance transferred, net							
Actual transfers, unpaid obligations	89	-	-	-	89	-	
Total unpaid obligated balance transferred, net	89	-	-	-	89	-	
Recoveries of Prior Year Unpaid Obligations, Actual	(1,431)	-	(87)	-	(1,518)	-	C
Change in uncollected customer payments from Federal Sources	(427)	-	-	-	(427)	-	
Obligated balance, net end of period							
Unpaid obligations	40,288	-	168	-	40,456	-	A, C
Less: Uncollected customer payments from Federal Sources	(1,845)	-	-	-	(1,845)	-	
Total, unpaid obligated balance, net end of period	38,443	-	168	-	38,611	-	
Net Outlays							
Gross Outlays	53,175	-	-	-	53,175	-	
Less: Offsetting Collections	(8,328)	(8)	(14)	-	(8,342)	(8)	C
Less: Distributed Offsetting Receipts	(4,152)	-	(396)	-	(4,548)	-	E
<b>NET OUTLAYS</b>	<b>\$40,695</b>	<b>\$(8)</b>	<b>\$(410)</b>	<b>\$ -</b>	<b>\$40,285</b>	<b>\$(8)</b>	

STATEMENT OF FINANCING, in millions	Original 2005	Effects of Restatements	Restated 2005	Description Reference
<b>Resources Used to Finance Activities:</b>				
<b>Budgetary Resources Obligated</b>				
Obligations Incurred	\$68,621	\$7	\$68,628	C
Less: Spending Authority from Offsetting Collections and Recoveries	(10,195)	(101)	(10,296)	C
Obligations Net of Offsetting Collections and Recoveries	58,426	(94)	58,332	
Less: Offsetting Receipts	(4,152)	(396)	(4,548)	E
Net Obligations	54,274	(490)	53,784	
<b>Other Resources</b>				
Donations and Forfeiture of Property	8	-	8	
Transfers in(out) Without Reimbursement (+/-)	11	-	11	
Imputed Financing from costs Absorbed by Others	651	-	651	
Net Other Resources Used to Finance Activities	670	-	670	
<b>Total Resources Used to Finance Activities</b>	<b>\$54,944</b>	<b>\$(490)</b>	<b>\$54,454</b>	
<b>Resource 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	\$(3)	\$12,863	C
Resources that Fund Expenses Recognized in Prior Periods	26	16	42	C
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)	-	(8)	
Other	(345)	(396)	(741)	E
Resources that Finance the Acquisition of Assets	1,860	-	1,860	
Other Resource or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations (+/-)	499	2	501	C
<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	<b>14,898</b>	<b>(381)</b>	<b>14,517</b>	
<b>TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS</b>	<b>\$40,046</b>	<b>\$(109)</b>	<b>\$39,937</b>	

STATEMENT OF FINANCING, in millions	Original 2005	Effects of Restatements	Restated 2005	Description Reference
<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	\$ -	\$67	
Increase in Environmental and Disposal Liability	13	7	20	D
Increase in Exchange Revenue Receivable from the Public	(95)	-	(95)	
Other				
Increase in Unfunded Claims and Claims Settlement Liabilities	21,651	-	21,651	
Increase in Actuarial Pension Liability	1,691	-	1,691	
Increase in USCG Military Post Employment Benefits	17	-	17	
Increase in Actuarial Health Insurance Liability	811	(444)	367	B
Other	311	(16)	295	C, D, E
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	24,466	(453)	24,013	
<b>Components not Requiring or Generating Resources:</b>				
Depreciation and Amortization	1,108	13	1,121	C
Revaluation of Assets or Liabilities (+/-)	543	9	552	C
Other (+/-)	243	-	243	
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	1,894	22	1,916	
<b>Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b>	<b>26,360</b>	<b>(431)</b>	<b>25,929</b>	
<b>NET COST OF OPERATIONS</b>	<b>\$66,406</b>	<b>\$(540)</b>	<b>\$65,866</b>	

## Required Supplementary Information (unaudited, see Auditors' Report)

### 1. Stewardship PP&E

#### A. 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 (in number of units).

	2006 (Unaudited)			2005 (Unaudited)		
	USCG	CBP	Total	USCG	CBP	Total
Beginning Balance	20,254	4	20,258	19,930	4	19,934
Additions	349	-	349	599	-	599
Withdrawals	(178)	-	(178)	(275)	-	(275)
<b>Ending Balance</b>	<b>20,425</b>	<b>4</b>	<b>20,429</b>	<b>20,254</b>	<b>4</b>	<b>20,258</b>

USCG possesses artifacts that can be divided into four general areas: ship's equipment, lighthouse and other aids-to-navigation items, military uniforms and display models. The addition of artifacts is the result of gifts to USCG. Withdrawals are made when items have deteriorated through inappropriate display, damage due to moving and transportation, or environmental degradation.

- Ship's equipment is generally acquired when the ship is decommissioned and includes small items such as sextants, ship's clocks, wall plaques, steering wheels, bells, binnacles, engine order telegraphs and ship's name boards. Conditions will vary based upon use and age.
- Aids-to-navigation items include fog and buoy bells, lanterns, lamp changing apparatus and lighthouse lenses. Buoy equipment is usually acquired when new technology renders the equipment obsolete. Classical lighthouse lenses can vary in condition. The condition is normally dependent on how long the item has been out of service. The lenses go to local museums or USCG bases as display items.
- Military uniforms are generally donated by retired USCG members and include clothing as well as insignia and accessories. Most clothing is in fair to good condition, particularly full dress items.
- Display models are mostly of USCG vessels and aircraft. These are often builders' models. Display models are generally in very good condition. Builders' models are acquired by USCG as part of the contracts with the ship or aircraft builders. The withdrawal of display models normally results from excessive wear.

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 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.

### 2. 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, 2006 was estimated to range from \$771 million to \$967 million on general property, plant and equipment and heritage assets. In fiscal year 2005, the Department reported estimated deferred maintenance of \$734 million to \$890 million with a range of poor to fair. 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, 2006 is presented below (in millions):

	<b>Low estimate</b>	<b>High estimate</b>	<b>Asset Condition</b>
Building & Structures	\$514	\$645	Poor to Good
Equipment (vehicles and vessels)	256	321	Poor to Fair
Heritage assets	1	1	Poor to Good
<b>Total</b>	<b>\$ 771</b>	<b>\$ 967</b>	



### 3. Statement of Budgetary Resources

#### Schedule of FY 2006 Budgetary Resources by Responsibility Segments (in millions) (page 1 of 2)

	U.S. VISIT	CBP	USCG	USCIS	FEMA	FLE	ICE	Dept	PRE	SS	ST	TSA	TOTAL
<b>BUDGETARY RESOURCES</b>													
Unobligated balance, brought forward, Oct 1	\$80	\$1,724	\$1,254	\$318	\$49,241	\$76	\$405	\$164	\$2,569	\$79	\$276	\$719	\$56,905
Recoveries of Prior Year Obligations	17	217	-	155	2,561	55	273	44	29	-	169	134	3,654
Budget Authority:													
Appropriations	340	9,254	8,762	1,813	9,101	308	3,744	960	4,097	1,435	1,502	4,432	45,748
Borrowing Authority	-	-	-	-	18,129	-	-	-	-	-	-	-	18,129
Spending Authority from Offsetting Collections:													
Earned:													
Collected	1	1,291	561	25	3,866	87	1,270	426	54	19	10	1,960	9,570
Change in Receivable from Federal Sources	-	10	18	1	2	2	3	(2)	-	3	2	-	39
Change in Unfilled Customer Orders:													
Advance Received	-	1	30	(5)	(531)	1	(14)	-	6	(2)	(18)	(9)	(541)
Without Advance From Federal Sources	-	43	33	13	424	109	(3)	(6)	12	9	32	1	667
Expenditure transfers from trust funds	-	3	46	-	-	-	-	-	-	-	-	-	49
Subtotal	341	10,602	9,450	1,847	30,991	507	5,000	1,378	4,169	1,464	1,528	6,384	73,661
Non-expenditure transfers, net; anticipated and actual	-	243	281	-	(750)	-	16	(4)	-	-	(14)	-	(228)
Temporarily Not Available Pursuant to Public Law	-	-	-	-	(24)	-	(5)	-	-	-	-	-	(29)
Permanently Not Available	(3)	(163)	(485)	(11)	(23,828)	(7)	(39)	(35)	(56)	(49)	(36)	(795)	(25,507)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$435</b>	<b>\$12,623</b>	<b>\$10,500</b>	<b>\$2,309</b>	<b>\$58,191</b>	<b>\$631</b>	<b>\$5,650</b>	<b>\$1,547</b>	<b>\$6,711</b>	<b>\$1,494</b>	<b>\$1,923</b>	<b>\$6,442</b>	<b>\$108,456</b>
<b>STATUS OF BUDGETARY RESOURCES</b>													
Obligations Incurred:													
Direct	\$236	\$9,032	\$8,028	\$2,066	\$48,663	\$308	\$3,767	\$903	\$4,994	\$1,409	\$1,450	\$6,267	\$87,123
Reimbursable	1	1,295	590	(176)	493	233	1,275	428	44	29	35	42	4,289
Subtotal	237	10,327	8,618	1,890	49,156	541	5,042	1,331	5,038	1,438	1,485	6,309	91,412
Unobligated Balance:													
Apportioned	198	294	1,272	107	6,888	73	278	164	1,628	5	404	54	11,365
Exempt from Apportionment	-	-	66	-	14	-	-	-	-	-	-	-	80
Subtotal	198	294	1,338	107	6,902	73	278	164	1,628	5	404	54	11,445
Unobligated Balance Not Available	-	2,002	544	312	2,133	17	330	52	45	51	34	79	5,599
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$435</b>	<b>\$12,623</b>	<b>\$10,500</b>	<b>\$2,309</b>	<b>\$58,191</b>	<b>\$631</b>	<b>\$5,650</b>	<b>\$1,547</b>	<b>\$6,711</b>	<b>\$1,494</b>	<b>\$1,923</b>	<b>\$6,442</b>	<b>\$108,456</b>

## Schedule of FY 2006 Budgetary Resources by Responsibility Segments (in millions) (page 2 of 2)

	U.S. VISIT	CBP	USCG	USCIS	FEMA	FLE	ICE	Dept	PRE	SS	ST	TSA	TOTAL
<b>CHANGE IN OBLIGATED BALANCES</b>													
Obligated Balance, Net													
Unpaid obligations brought forward, Oct 1	\$345	\$2,398	\$3,061	\$636	\$20,287	\$114	\$1,293	\$557	\$8,291	\$243	\$952	\$2,279	\$40,456
Uncollected customer payments from federal sources, brought forward, Oct 1	-	(323)	(182)	(11)	(539)	(42)	(483)	(182)	(5)	(9)	-	(69)	(1,845)
Total unpaid obligated balance, net	345	2,075	2,879	625	19,748	72	810	375	8,286	234	952	2,210	38,611
Obligations incurred, net	237	10,328	8,618	1,889	49,156	541	5,042	1,331	5,039	1,438	1,485	6,308	91,412
Gross Outlays	(359)	(9,441)	(8,535)	(1,731)	(46,198)	(335)	(4,372)	(1,083)	(3,975)	(1,374)	(1,044)	(5,866)	(84,313)
Recoveries of Prior Year Unpaid Obligations	(17)	(217)	-	(155)	(2,561)	(55)	(272)	(44)	(30)	-	(168)	(135)	(3,654)
Change in uncollected customer payments from Federal Sources	-	(52)	(51)	(14)	(425)	(111)	(1)	7	(13)	(12)	(34)	-	(706)
Obligated balance, net end of Period													
Unpaid Obligations	206	3,067	3,144	639	20,685	265	1,690	761	9,326	307	1,225	2,587	43,902
Uncollected customer payments from Federal Sources	-	(374)	(233)	(25)	(965)	(153)	(483)	(175)	(19)	(21)	(34)	(70)	(2,552)
Total, unpaid obligated balance, net, end of period	206	2,693	2,911	614	19,720	112	1,207	586	9,307	286	1,191	2,517	41,350
<b>NET OUTLAYS</b>													
Net Outlays													
Gross Outlays	359	9,441	8,535	1,731	46,198	335	4,372	1,083	3,975	1,374	1,044	5,866	84,313
Offsetting collections	(1)	(1,295)	(637)	(20)	(3,335)	(87)	(1,256)	(427)	(60)	(17)	8	(1,951)	(9,078)
Distributed offsetting receipts	-	(2,348)	(33)	(2,041)	(7)	(6)	(110)	1	-	(1)	-	(276)	(4,821)
<b>Net Outlays</b>	<b>\$358</b>	<b>\$5,798</b>	<b>\$7,865</b>	<b>\$(330)</b>	<b>\$42,856</b>	<b>\$242</b>	<b>\$3,006</b>	<b>\$657</b>	<b>\$3,915</b>	<b>\$1,356</b>	<b>\$1,052</b>	<b>\$3,639</b>	<b>\$70,414</b>

Schedule of FY 2005 Budgetary Resources by Responsibility Segments (in millions) (page 1 of 2)

	U.S. VISIT	CBP	USCG	USCIS	FEMA	FLE	ICE	Dept	PRE	SS	ST	TSA	TOTAL
<b>BUDGETARY RESOURCES</b>													
Unobligated balance, brought forward, October 1	\$136	\$1,915	\$1,077	\$317	\$3,147	\$67	\$209	\$161	\$373	\$55	\$381	\$306	\$8,144
Recoveries of Prior Year Obligations	-	146	77	56	609	29	245	12	150	-	64	130	1,518
Budget Authority:													
Appropriations	350	7,572	7,648	1,702	69,487	227	3,188	614	7,406	1,386	1,115	4,452	105,147
Borrowing Authority	-	-	-	-	2,026	-	-	-	-	-	-	-	2,026
Contract Authority	-	-	-	-	-	-	-	-	-	-	-	-	-
Spending Authority from Offsetting Collections:													
Earned:													
Collected	-	1,207	422	67	2,692	64	1,003	209	30	23	24	1,989	7,730
Change in Receivable from Federal Sources	-	33	(65)	(67)	(7)	3	(59)	12	-	5	-	3	(142)
Change in Unfilled Customer Orders:													
Advance Received	-	-	(7)	(7)	534	-	3	-	84	(12)	(4)	(20)	571
Without Advance From Federal Sources	-	63	30	7	188	12	205	95	4	(5)	(1)	(29)	569
Anticipated for Rest of Year, Without Advances	-	-	-	-	-	-	-	-	-	-	-	-	-
Previously unavailable	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenditure transfers from trust funds	-	3	47	-	-	-	-	-	-	-	-	-	50
Subtotal	350	8,878	8,075	1,702	74,920	306	4,340	930	7,524	1,397	1,134	6,395	115,951
Non-expenditure transfers, net; anticipated and actual	-	136	198	-	(14)	-	4	22	(6)	-	(5)	2	337
Temporarily Not Available Pursuant to Public Law	-	-	-	-	-	-	-	-	-	-	-	-	-
Permanently Not Available	-	(197)	(52)	-	(18)	(2)	(86)	(24)	(25)	(13)	-	-	(417)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$486</b>	<b>\$10,878</b>	<b>\$9,375</b>	<b>\$2,075</b>	<b>\$78,644</b>	<b>\$400</b>	<b>\$4,712</b>	<b>\$1,101</b>	<b>\$8,016</b>	<b>\$1,439</b>	<b>\$1,574</b>	<b>\$6,833</b>	<b>\$125,533</b>
<b>STATUS OF BUDGETARY RESOURCES</b>													
Obligations Incurred:													
Direct	\$405	\$7,881	\$7,747	\$1,822	\$28,333	\$235	\$3,244	\$627	\$5,349	\$1,317	\$1,283	\$6,104	\$64,347
Reimbursable	-	1,273	374	(65)	1,069	88	1,060	311	100	43	14	14	4,281
Subtotal	405	9,154	8,121	1,757	29,402	323	4,304	938	5,449	1,360	1,297	6,118	68,628
Unobligated Balance:													
Apportioned	81	203	830	67	46,961	63	283	121	2,548	2	277	407	51,843
Exempt from Apportionment	-	-	33	-	12	-	-	-	-	-	-	-	45
Subtotal	81	203	863	67	46,973	63	283	121	2,548	2	277	407	51,888
Unobligated Balance Not Available	-	1,521	391	251	2,269	14	125	42	19	77	-	308	5,017
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$486</b>	<b>\$10,878</b>	<b>\$9,375</b>	<b>\$2,075</b>	<b>\$78,644</b>	<b>\$400</b>	<b>\$4,712</b>	<b>\$1,101</b>	<b>\$8,016</b>	<b>\$1,439</b>	<b>\$1,574</b>	<b>\$6,833</b>	<b>\$125,533</b>

Schedule of FY 2005 Budgetary Resources by Responsibility Segments (in millions) (page 2 of 2)

	U.S. VISIT	CBP	USCG	USCIS	FEMA	FLE	ICE	Dept	PRE	SS	ST	TSA	TOTAL
<b>CHANGE IN OBLIGATED BALANCES</b>													
Obligated Balance, Net	\$188	\$2,160	\$2,794	\$603	\$8,507	\$79	\$1,146	\$487	\$7,286	\$299	\$573	\$2,310	\$26,432
Unpaid obligations brought forward, October 1	-	(227)	(216)	(71)	(357)	(27)	(337)	(76)	(3)	(8)	(1)	(95)	(1,418)
Uncollected customer payments from federal sources, brought forward, October 1	188	1,933	2,578	532	8,150	52	809	411	7,283	291	572	2,215	25,014
Total unpaid obligated balance, net	396	9,153	8,121	1,757	29,402	323	4,304	946	5,448	1,361	1,298	6,119	68,628
Obligations incurred, net	(239)	(8,773)	(7,778)	(1,670)	(17,014)	(259)	(3,999)	(864)	(4,291)	(1,417)	(855)	(6,016)	(53,175)
Gross Outlays	-	-	-	-	-	-	-	-	-	-	-	-	-
Obligated balance transferred, net:	-	3	-	2	-	-	84	-	-	-	-	-	89
Actual transfers, unpaid obligations	-	-	-	-	-	-	-	-	-	-	-	-	-
Actual transfers, uncollected customer payments from Federal Sources	-	-	-	-	-	-	-	-	-	-	-	-	-
Total unpaid obligated balance transferred, net	-	3	-	2	-	-	84	-	-	-	-	-	89
Recoveries of Prior Year Unpaid Obligations	-	(146)	(77)	(57)	(608)	(29)	(245)	(13)	(150)	-	(64)	(129)	(1,518)
Change in uncollected customer payments from Federal Sources	-	(96)	34	60	(181)	(15)	(146)	(106)	(5)	-	1	27	(427)
Obligated balance, net end of Period	345	2,397	3,060	635	20,287	114	1,290	556	8,291	244	952	2,285	40,456
Unpaid Obligations	-	(323)	(182)	(11)	(538)	(42)	(483)	(182)	(6)	(9)	-	(69)	(1,845)
Uncollected customer payments from Federal Sources	345	2,074	2,878	624	19,749	72	807	374	8,285	235	952	2,216	38,611
Total, unpaid obligated balance, net, end of period													
<b>NET OUTLAYS</b>													
Net Outlays	239	8,773	7,778	1,670	17,014	259	3,999	864	4,291	1,417	855	6,016	53,175
Gross outlays	-	(1,210)	(461)	(61)	(3,226)	(64)	(1,006)	(208)	(114)	(11)	(20)	(1,969)	(8,350)
Offsetting collections	-	(2,247)	(25)	(1,891)	-	-	(135)	-	-	-	-	(250)	(4,548)
Distributed offsetting receipts													
<b>Net Outlays</b>	<b>\$239</b>	<b>\$5,316</b>	<b>\$7,292</b>	<b>\$(282)</b>	<b>\$13,788</b>	<b>\$195</b>	<b>\$2,858</b>	<b>\$656</b>	<b>\$4,177</b>	<b>\$1,406</b>	<b>\$835</b>	<b>\$3,797</b>	<b>\$40,277</b>

#### 4. Statement of 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 2006 and 2005, CBP had legal right to collect \$1.8 billion and \$1.4 billion of receivables respectively. In addition, there was an additional \$2.4 billion and \$1.9 billion representing records still in the protest phase for fiscal years 2006 and 2005 respectively. CBP recognized as write-offs \$204 million and \$134 million respectively, of assessments that the Department has statutory authority to collect at September 30, 2006 and 2005, 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, 2006 and 2005, USCG had outstanding general fund receipt receivables due to the Treasury General Fund of \$10 million and \$15 million, respectively.

USCIS collects user fees from employers for nonimmigrant petitions under two Congressionally mandated programs. All user fees are collected when the petition is submitted. USCIS retains a portion of the fees to fund specific program expenses and transfers the remaining balance to other Federal agencies.

#### 5. 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 less 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 premiums), 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.

## Required Supplementary Stewardship Information (unaudited, see Auditors' Report)

### 1. Stewardship Investments

Due to changes in the DHS organization as a result of the Second Stage Review stewardship investments information is presented only for fiscal year 2006. Stewardship investments are substantial investments made by the Federal government for the benefit of the Nation. When incurred, stewardship investments are treated as expenses in calculating net cost, but 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 2006, investment amounts reported below are an allocation of gross cost based on program outlays.

Summary of Stewardship Investments (in millions)		
Programs	Human Capital	Research and Development
G&T – First Responders Programs	\$6	\$494
S&T – Research and Development Programs	-	1,225
<b>Total</b>	<b>\$6</b>	<b>\$1,719</b>

### 2. 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, PRE has made significant investments in Human Capital.

#### PRE

**First Responders Training Programs:** In fiscal year 2006, PRE provided various training initiatives to improve the knowledge, skills, and abilities of first responders for prevention, response, and recovery. Highlights of performance information include:

Program	Performance Measure	FY 2006 Target	FY 2006 Results
Grants, Training, & Exercises	Percent of jurisdictions demonstrating acceptable performance on applicable critical tasks in exercises using G&T approved scenarios.	60%	35%
Grants, Training, & Exercises	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.	90%	61.8%
Grants, Training, & Exercises	Percent of participating urban area grant recipients reporting measurable progress made towards identified goals and objectives to prevent and respond to terrorist attacks.	90%	64.8%
Grants, Training, & Exercises	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.	38%	27%



### 3. 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, S&T has made significant investments in Research and Development.

#### S&T

**Research and Development Programs:** In fiscal year 2006, 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:

Program	Performance Measure	FY 2006 Target	FY 2006 Results
Threat Awareness Portfolio	Average of expert reviews of improvement in the national capability to assess threats of terrorist attacks.	7	7
Explosives Countermeasures	Cumulative number of air cargo and rail passenger explosives screening pilots initiated.	4	5
Rapid Prototyping	Number of prototypes delivered through DHS funded projects through Technical Support Working Group (TSWG), Rapid Technology Application Program (RTAP) and Small Business Innovation Research (SBIR) program.	4	17
Standards	Number of Department of Homeland Security official technical standards introduced.	15	15
Standards	Percent of standards introduced that are adopted by Department of Homeland Security and partner agencies.	67%	92%
Biological Countermeasures	Number of bioaerosol collectors deployed in the top threat cities.	223	198
Counter Man-Portable Air Defense System (MANPADS)	Increase in Mean Flight Hours Between Failure (MFHBF) from Phase II to Phase III.	1,100	0
Counter Man-Portable Air Defense System (MANPADS)	Number of operational flight hours of Counter-MANPADS system conducted in a commercial aviation environment.	300	0
University Programs	Percent of peer review adjectival ratings on University Programs' management and research and education programs that are very good or excellent.	78%	54.3%
Chemical Countermeasures	Percent completion of an effective restoration capability to restore key infrastructure to normal operation after a chemical attack.	25%	25%
Interoperability & Compatibility	Percent of grant programs for public safety wireless communications that include "SAFECOM" Federal standards-approved grant guidance.	100%	100%
Interoperability & Compatibility	Percent of states that have initiated or completed a statewide interoperability plan, such as the Statewide Communications Interoperability Plan (SCIP).	26%	26%



# Other Accompanying Information

Part IV

## Other Accompanying Information (unaudited)

### Tax Burden / Tax Gap

A Compliance Measurement Program was initiated in fiscal year 1995 for the purpose of collecting statistical data to determine the compliance level of commercial imports with U.S. trade laws, regulations, and agreements, and to estimate the revenue gap.

The revenue gap is a calculated estimate that measures potential loss of revenue owing to noncompliance with trade laws, regulations, and agreements using a statistically valid sample of the revenue losses and overpayments detected during Compliance Measurement entry summary reviews conducted throughout the year.

In fiscal year 2005, the actual revenue gap was \$470 million. The overall compliance rate for fiscal year 2005 was 95 percent.

In fiscal year 2006, CBP calculated the preliminary revenue gap to be \$314 million. The projected over-collection and under-collection amounts due to noncompliance were \$128 million and \$442 million in fiscal year 2006, respectively. The preliminary overall trade compliance rate for fiscal year 2006 is 96.6 percent. With overall compliance at a high level, CBP has been able to emphasize matters of significant trade risk.

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

### Improper Payments Information Act (IPIA) Reporting Details

#### Compiling a DHS IPIA Program Inventory

The DHS Office of the Chief Financial Officer worked with Components to identify improper payment programs based on groupings of Treasury appropriation fund symbols. Payment sample testing focused on Hurricane Katrina Disaster Relief payments to vendors and to individuals, contract payments to vendors, and grant payments. Payment sample testing was required for all programs issuing more than \$100 million of IPIA relevant payments in FY 2005. Payroll, inter-governmental, and travel payments were excluded. Purchase cards were tested centrally by USCG. DHS does not have any programs identified under former *Section 57 of OMB Circular A-11*.

Components supplied a statistical team with FY 2005 payment data. The statistical team constructed stratified sampling plans and samples. Sample test design and improper payment identification followed OMB's Guidance as given in *Appendix C to Circular A-123*. If sample testing showed any possibility that a program was near or above OMB's high risk reporting standards, the statistical team extrapolated the sample results across the payment population. If the sample showed an insignificant error rate, no extrapolation was performed.

In order to focus on identifying and recouping improper Hurricane Katrina Disaster Relief payments, testing at FEMA was conducted differently than at other components. FEMA tested Disaster Relief vendor payments and Individual and Households Program (IHP) payments issued between September 1, 2005 and March 1, 2006 (the time of greatest payment activity). Corrective action work began almost immediately as part of FEMA's Circular A-123 internal controls effort. Given the scale of effort required to complete this Disaster Relief sample testing, non-Disaster and fiscal period based improper payments testing were not attempted.

## High Risk IPIA Programs

Based on the sample test results listed below, FEMA's Disaster Relief program is at high risk for issuing improper payments:

Payment Type	Estimated Improper Payment Amount (\$ Millions)	Estimated Improper Payment Rate	Population Size (\$ Millions)	Sample Size (\$ Millions)	Error Size (\$ Millions)	Sample Precision
Vendor	\$319	7.44%	\$4,286	\$825	\$38	+/- 2.62%
IHP	\$450	8.56%	\$5,251	\$2.5	\$0.2	+/- 2.32%

The \$450 million and 8.56% improper payment amount and rate for the IHP program varies considerably from the \$600-\$1,400 million and 16% improper payment amount and rate reported in *GAO-06-844T Hurricanes Katrina and Rita Disaster Relief*. The GAO study sampled 247 payments made from August 2005 through February 2006. As GAO did not share with FEMA the identity of the specific cases selected for analysis, it is difficult for DHS to explain the differing results. FEMA's own test work found that some payments that might seem improper actually were proper. For example, GAO cited duplicate payments made to individuals in the same household as a potential problem. FEMA's "Separated Households" policy established for Hurricanes Katrina and Rita may prove the payments proper. GAO also questioned households receiving duplicate payments for rental and hotel lodging. Absent a specific review, it is not possible to determine whether the household received the rental payment in order to obtain housing as the applicant was transitioned out of hotel accommodations.

## Non-High Risk IPIA Programs

Sample testing for the following programs yielded estimated error amounts below \$1 million:

Component	IPIA Program Name	FY 2005 Disbursement Population (\$ millions)	FY 2005 Sample Size (\$ millions)	Sample Size
CBP	Salaries and Expenses	\$1,276	\$659	405
	User Fees	\$544	\$505	103
	Automation Modernization	\$400	\$284	214
	Other	\$171	\$113	123
ICE	Salaries and Expenses	\$580	\$178	354
	Research and Development and Student and Exchange Visitor Information System	\$406	\$150	170
	Federal Protective Service	\$351	\$17	171
	US-VISIT	\$131	\$84	95
TSA	Grants	\$343	\$179	81
	Non-Grants	\$1,687	\$518	221
USCG	Contracts	\$809	\$496	167
USSS	Operating Expenses	\$141	\$47	300



CBP tested the custodial program as part of remediating the Custodial Revenue and Drawback material weakness. This testing did not follow Appendix C guidelines but did support the conclusion that this program is not at high risk for issuing improper payments as no significant improper payments were identified.

FEMA did not complete testing of its non-disaster program or of its disaster program outside of the Hurricane Katrina payment testing summarized under the IPIA high risk programs.

FLETC completed a qualitative risk matrix and sample testing for its three IPIA programs (Construction \$44 million disbursement population, Salaries and Expenses \$46 million, and Law Enforcement Training \$50). The risk matrix showed no high risk factors were present. The sample testing, though not quite meeting OMB's precision requirements showed a collective error rate of under 0.1%.

GT did not complete sample testing on its grants programs. The State and Local Grant disbursement FY 2005 population was \$862 million of which \$367 million was to be sampled. The Domestic Preparedness Grant disbursement FY 2005 population was \$1,199 million of which \$349 million was to be sampled. One complication, which was not overcome, was how to extend sample testing to grant end users.

USCG did not complete testing of FAMS payments.

Purchase cards, which are centralized across the Department under the USCG, were tested for improper payments. Testing was according to purchase card program procedures rather than strictly for IPIA compliance but the results are highly relevant. In FY 2005, purchase card payments totaled \$424 million of which \$196 million was non-USCG and \$227 million was USCG. Audit work was completed on payments totaling \$101 million. Improper payments of \$142 thousand were identified (\$75 thousand non-USCG and \$67 thousand USCG) for an error rate of less than 0.2%.

## Statistical Sampling Process for FEMA's High Risk Disaster Relief Program

### Sample Design for Vendor Payments

Stratum	Population Total (\$ Millions)	Sample Total (\$ Millions)	Population Count	Sample Count
\$0 < Amount <= \$165,000	\$177	<1	7,447	13
\$165,000 < Amount <= \$500,000	\$304	\$4	1,004	13
\$500,000 < Amount <= \$1,000,000	\$337	\$10	480	14
\$1,000,000 < Amount <= \$1,750,000	\$402	\$21	298	16
\$1,750,000 < Amount <= \$2,500,000	\$380	\$30	180	15
\$2,500,000 < Amount <= \$3,650,000	\$512	\$59	169	20
\$3,650,000 < Amount <= \$5,000,000	\$482	\$81	114	19
\$5,000,000 < Amount <= \$6,250,000	\$326	\$74	58	13
\$6,250,000 < Amount <= \$7,500,000	\$404	\$110	59	16
\$7,500,000 < Amount <= \$8,750,000	\$397	\$130	49	16
\$8,750,000 < Amount <= \$10,000,000	\$421	\$160	45	17
\$10,000,000 < Amount	\$146	\$146	12	12
Total	\$4,286	\$825	9,915	184

### Sample Design for IHP Payments

Stratum	Population Total (\$ Millions)	Sample Total (\$ Thousands)	Population Count (Thousands)	Sample Count
Payments with Duplicate Transactions	<1	\$458	<1	233
Amount <= \$2,000	\$528	\$39	377	23
\$2,000 < Amount <= \$4,300	\$297	\$35	194	23
\$4,300 < Amount <= \$4,400	\$1,198	\$205	551	94
\$4,400 < Amount <= \$6,000	\$385	\$79	216	45
\$6,000 < Amount <= \$7,500	\$418	\$110	197	54
\$7,500 < Amount <= \$10,000	\$327	\$114	120	42
\$10,000 < Amount <= \$14,000	\$387	\$185	108	52
\$14,000 < Amount <= \$15,000	\$536	\$308	112	64
\$15,000 < Amount <= \$17,500	\$478	\$312	113	72
\$17,500 < Amount <= \$24,000	\$350	\$274	69	55
\$24,000 < Amount	\$347	\$358	57	58
Total	\$5,251	\$2,475	2,115	815



## Corrective Action Plans for FEMA's High Risk Disaster Relief Program

### Vendor Payments

The vendor payments sample identified \$38 million in improper payments. The sources of errors can be categorized as follows: \$17 million in unsupported freight amounts, \$13 million in contractual deficiencies, and \$8 million in inadequate supporting documentation.

Planned Vendor Payments Corrective Action Plans	Target Date
Perform quality assurance sampling for invoices on a periodic basis.	December 2006
Ensure roles and responsibilities for invoice receipt, approval, and payment are clearly defined for COTRs, Project Officers, and Accounting Technicians by conducting a review of policies, procedures, and job descriptions.	January 2007
Review procurement contract language to ensure consistency and adequacy for similar goods and services related to product substitution and pricing variances.	January 2007
Train Accounting Technicians, Project Officers, and COTRs on the processes and expectations for handling product substitutions, pricing variances and related invoices.	January 2007
Strengthen the process for designating authorized invoice reviewers and approvers so that designated signatories and alternates are documented and readily accessible.	February 2007
Formalize the process of receipt, issuance, and follow up on invoices with COTRs and Project Officers. Develop timelines for approval and escalation procedures for unapproved invoices. Enforce periodic refresher notification through All Hands memo. Distribute performance metrics on compliance.	March 2007
Complete training which covers the importance of ensuring that invoiced amounts are supported and consistent with contractual requirements, and that approval should be made only for amounts that are adequately supported on invoices and meet Federal requirements.	April 2007
Train Accounting Technicians, Project Officers, and COTRs on freight related invoice processing requirements. Training will emphasize that unsupported invoice charges are to be questioned and disallowed.	April 2007

## IHP

The IHP payments sample identified \$225 thousand in improper payments. The sources of errors were \$153 thousand duplicate payments to multiple applicants within the same household, \$47 thousand duplicate payments via multiple payments to the same applicant, \$16 thousand applicant eligibility compliance issues, \$5 thousand inadequate supporting documentation surrounding the inspection, \$2 thousand inadequate supporting documentation surrounding the primary residence inspection, and \$1 thousand incorrect rental assistance based on fair market value.

Completed IHP Corrective Action Plans	Completion Date
Implemented identity proofing of Intranet applications.	February 2006
Developed temporary computer scripts to prevent duplicate call center and Internet applications incorporated into permanent business rules.	May 2006
Implemented ownership/occupancy verification feature.	June 2006
Enhanced social security number validation checks.	June 2006
Revised the memorandum of agreement with the Red Cross to add reimbursement details.	June 2006
Increased the number of applications and follow on processes that the disaster relief financial system can handle.	July 2006
Secured a contract which allows FEMA to issue authorization codes and track hotel recipients.	July 2006
Established an automated accounts receivable interface between disaster benefits financial system and core accounting system.	August 2006
Integrated identity and social security number authentication into registration process.	September 2006
Awarded a communications contract to review application packets and other applicant information.	September 2006

In Process and Planned IHP Corrective Action Plans	Target Date
Streamline the recoupment process and computer interfaces to increase the number recoupments that can be processed per day.	November 2006
Award a contract to make available 6,000 call center agents.	March 2007
Recompete housing inspection contract.	March 2007
Conduct a second round of IPIA testing on Hurricane Katrina IHP payments made between March and September 2006.	March 2007
Clarify with the Office of General Counsel if FEMA can get legislative backing allowing for the collection of insurance policy data in addition to claims data.	December 2007

## Improper Payment Reduction Outlook for High Risk DHS Programs

Improper Payment Reduction Outlook															
(\$ in millions)															
Program	FY 2005 Outlays	FY 2005 %	FY 2005	FY 2006 Outlays	FY 2006 %	FY 2006	FY 2007 Est. Outlays	FY 2007 %	FY 2007	FY 2008 Est. Outlays	FY 2008 %	FY 2008	FY 2009 Est. Outlays	FY 2009 %	FY 2009
IHP	\$4,638	8.56	\$397	\$3,902	8.56	\$334	\$2,551	2.50	\$64	\$2,551	2.00	\$51	\$2,551	1.50	\$38
Vendor Payments	\$6,645	7.44	\$494	\$6,747	7.44	\$502	\$3,872	3.50	\$136	\$3,872	2.50	\$97	\$3,872	1.50	\$58

Several major assumptions are embedded in the above table. The first assumption involves estimating future year outlays. The difficulty is that these programs do not have stable outlays from year to year because emergency response to Presidential declared disasters and other emergencies varies through time. The estimated outlay figures above were based on an average of the four most recent fiscal years. Payment totals for these years are as follows (\$ in millions):

FY	Vendors	IHP	Totals
2003	\$774	\$684	\$1,458
2004	\$1,322	\$982	\$2,304
2005	\$6,645	\$4,638	\$11,283
2006	\$6,747	\$3,902	\$10,650
Totals	\$15,488	\$10,206	\$25,694

The second assumption is the application of the estimated error percentage rates that came from the September 1, 2005 to March 1, 2006 testing to the FY 2005 and FY 2006 outlay figures. The third assumption is the improvement in reducing improper payments as a result of implementing corrective actions.

### Recoupment of Hurricane Katrina Improper Payments

Following every Federally declared disaster, FEMA routinely conducts a review of disaster assistance payments to individuals to ensure that taxpayer dollars were provided in an appropriate manner and in an amount to meet the eligible needs of the applicant. FEMA takes seriously its mission to maintain close oversight on the distribution of disaster assistance and will recoup money that has been disbursed incorrectly.

Since mid-March 2006, FEMA has been reviewing and identifying applicants awarded funds in error and taking actions to recoup these funds. FEMA is reviewing its entire population of Katrina IHP transactions for identified improper payment categories, for example: Primary Residence Occupancy Verification, Multiple Payments to Same Applicants, and Multiple Payments to the Same Household. As of September 19, 2006, almost 32,000 applicants had been approved for recoupments totaling \$151 million with \$4 million returned to FEMA. These numbers are expected to grow between 50% and 100% by the end of October 2006.

Below are the leading reasons for recoupment:

- Casework/inspector error;
- System error;
- Duplication of benefits with insurance;
- Multiple awards to the same household;
- Duplication of benefits with other disaster agencies;
- Fraud – those identified by Federal investigative and law enforcement agencies;
- Non-primary residence;
- Non-compliance with previous flood insurance requirements;
- Lack of verifications (ownership, occupancy, residency status);
- Duplicate assistance (Expedited Assistance, Replacement Assistance);
- Identity verification failed; and

- Students (if living in campus provided housing at the time of the disaster, they are not eligible for Temporary Housing Assistance but are eligible for limited personal property assistance).

### **Recovery Auditing**

Recovery audit contract work began in FY 2005 at CBP and ICE and expanded to USCG in FY 2006. All FY 2005 payments at these components are under review. No payment groups are excluded. Unfortunately, delays in contract personnel obtaining security clearances severely hampered completion of recovery audit work at CBP and ICE. Delays in supplying needed disbursement information hindered recovery audit work at USCG. As a result, DHS is not able to provide meaningful recovery audit results for FY 2005 disbursements.



October 23, 2006

## Major Management Challenges Facing the Department of Homeland Security

Since its inception in March 2003, the Department of Homeland Security (DHS) has 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 missions of protecting the country against another terrorist attack, responding to threats and hazards, ensuring safe and secure borders, welcoming lawful immigrants and visitors, and promoting the free-flow of commerce has presented many challenges to its managers and employees. While DHS has made progress, it still has much to do to establish a cohesive, efficient, and effective organization.

The major management challenges we identify facing DHS, including department-wide and operational 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. We have made recommendations in many, but not all, of these areas as a result of our reviews and audits of departmental operations. Where applicable, we have footnoted specific reports that require DHS's action.

### **CATASTROPHIC DISASTER RESPONSE AND RECOVERY**

DHS's failures after Hurricane Katrina ravaged the Gulf Coast on August 29, 2005, illuminated longstanding problems within the Federal Emergency Management Agency (FEMA). Many of the problems have existed for years, but never received the attention needed to fix them because FEMA had never before dealt with such a devastating disaster. Some estimate that the total federal response and recovery cost could reach \$200 billion or more. FEMA has shortcomings in managing assistance and housing for evacuees, information systems, contracts and grants, and implementing the National Flood Insurance Program.<sup>1</sup> We are planning additional work to assess FEMA's readiness to respond to future catastrophic disasters.

DHS and FEMA have learned many lessons from Katrina and have taken steps to improve their ability to respond to catastrophic disasters. For example, DHS and its federal partners revised the Catastrophic Incident Supplement to the National Response Plan to establish a better-coordinated strategy for a federal response to a catastrophic disaster. FEMA is working to improve its ability to house large numbers of evacuees and its logistics capability to supply commodities to disaster victims more quickly. But, it must implement catastrophic housing and logistics plans that are tested and exercised.

Possibly the largest problem FEMA faced in the aftermath of Katrina was assisting, sheltering, and housing evacuees. Never before had so many people been displaced for an extended period of time. FEMA's existing programs were inadequate to handle the problem, and FEMA's efforts to house victims in travel trailers and mobile homes were not well managed. Also, the number of victims overwhelmed FEMA's system for verifying their identities and providing individual assistance payments. The result of FEMA's efforts to speed up the process resulted in widespread fraud. In February 2006, we reported on weaknesses in FEMA's registration intake controls and recommended actions to improve them.<sup>2</sup> FEMA has improved its intake process and the system's capacity, but the changes are untested and may not be sufficient to address existing deficiencies. We are reviewing these problems and will help FEMA find solutions so it will be better prepared for the next catastrophic disaster or even multiple catastrophic disasters.

We have focused substantial work on FEMA contracting and have identified numerous problems. Our work indicates that FEMA was not well prepared to provide the kind of acquisition support needed for a catastrophic disaster. FEMA's overall response efforts suffered from (1) inadequate acquisition planning and preparation for many crucial needs, (2) lack of clearly communicated acquisition responsibilities between FEMA, other federal agencies, and state and local governments, and (3) insufficient numbers of acquisition personnel to manage and oversee contracts. In February 2006, we reported that FEMA purchased mobile homes without having a plan for how the homes would be used. As a result, FEMA now has thousands of surplus mobile homes.<sup>3</sup> In September 2006, we reported that FEMA spent \$7 million renovating a facility to house evacuees. Because there was inadequate planning, the facility was never needed. As a result, the facility was underutilized.<sup>4</sup> FEMA has already made improvements; such as increasing the number of standby contracts in place and ready to be executed when disaster strikes. Also, DHS created a Disaster Response/Recovery Internal Control Oversight Board to address many of the problems. We will soon conduct a review of FEMA's overall acquisition management structure to identify additional improvements that FEMA can make to be prepared better for the next catastrophic disaster. We will review organizational alignments and leadership, policies and procedures, FEMA's acquisition workforce, and its information management. We are also reviewing FEMA's system for accounting for property it has purchased for disasters.

Hurricane Katrina highlighted the need for data sharing among federal agencies following a catastrophic disaster. We see a need for data sharing in three areas. Real-time data exchange among agencies would help verify eligibility of applicants for disaster assistance and simplify the application process for victims. Direct access to FEMA data by law enforcement agencies would help identify and track convicted sex offenders and suspected felons, and help locate missing children. Computer data matching would help to prevent duplicative payments and identify fraud. FEMA is moving in the right directions on these issues. For example, FEMA has granted direct access to its data to the Hurricane Katrina Fraud Task Force for the purpose of investigating fraud. However, progress is slow and much remains to be done. FEMA and the federal community are not ready to meet the data sharing requirements of the next catastrophic disaster.

<sup>1</sup> DHS-OIG, *Performance Review of FEMA's Disaster Management Activities in Response to Hurricane Katrina*, OIG-06-32, March 2006.

<sup>2</sup> DHS-OIG, *Strengthening Registration Intake Controls*, OIG GC-HQ-06-10.

<sup>3</sup> DHS-OIG, *Mobile Homes and Modular Homes at Hope and Red River*, OIG GC-HQ-06-12.

<sup>4</sup> DHS-OIG, *Starship Facility Renovation Project*, OIG GC-HQ-06-52.



FEMA issued approximately 2,700 mission assignments totaling about \$8.7 billion to federal agencies to help with response to Hurricane Katrina. FEMA historically has had significant problems issuing, tracking, monitoring, and closing mission assignments. FEMA guidance on the missions is often vague, and agencies' accounting practices vary significantly, causing problems with reconciling agencies' records to FEMA records. FEMA has developed a number of new pre-defined mission assignments to streamline some of the initial recurring response activities. In addition, FEMA's Disaster Finance Center is working to find a consensus among other Federal agencies on appropriate supporting documentation for billings. We are conducting a review of mission assignments to DHS agencies and other Inspectors General are reviewing mission assignments to their respective agencies.

We are also planning a review of FEMA's National Flood Insurance Program (NFIP). 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 is now faced with NFIP issues ranging from outdated flood maps to the question of whether damages are the result of flooding from storm surge or hurricane winds. Many NFIP related questions need to be addressed before the next catastrophic flood.

## ACQUISITION AND CONTRACT MANAGEMENT

DHS must have an acquisition management infrastructure in place that allows it to oversee effectively the complex and large dollar procurements critically important to achieving DHS's mission. Acquisition management is not just awarding a contract, but an entire process that begins with identifying a mission need and developing a strategy to fulfill that need through a thoughtful, balanced approach that considers cost, schedule, and performance.

We identified significant risks and vulnerabilities that might threaten the integrity of those operations. In general, DHS needs more comprehensive acquisition guidance and oversight.<sup>5</sup> Other vulnerabilities fall into three general categories: adherence to ethical conduct, program management, and procurement management.

- In the area of ethical conduct, senior program managers and procurement officials would benefit from expanded training and guidance on their procurement ethics responsibilities. DHS's many partnership arrangements with the private sector suggest that the minimal initial and annual government ethics training DHS requires may be insufficient. The Office of the Chief Procurement Officer (OCPO) is working with DHS ethics officials to develop effective online training for procurement executives and operational specialists. This training will expand on the initial training and provide relevant ethics scenarios. The training will also provide a mechanism for procurement executives to request additional information and assistance as ethics issues arise. In addition, OCPO has piloted acquisition ethics training targeted towards senior management. This pilot has been presented to all heads of contracting activities and selected senior Immigration and Customs Enforcement (ICE) personnel.
- Effective program management is essential to obtaining the right equipment and systems to accomplish the DHS mission. Complex and high dollar contracts require multiple program managers often with varying types of expertise. Several DHS procurements have encountered problems because contract technical and performance requirements were not well defined. DHS needs more certified program managers;

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<sup>5</sup> DHS-OIG, *Department of Homeland Security's Procurement and Program Management Operations*, OIG 05 53, September 2005.

comprehensive department-wide standards for program management; a strengthened investment review board process to provide greater independent analysis and review; better defined technical requirements; and more balance among schedule, cost, and performance when expediting contracts. OCPO recently established a program management advisory board, established standards for certifying program managers, and promoted program management training opportunities.

- In their transition into DHS, seven agencies retained their procurement functions, including the United States Coast Guard (USCG), FEMA, and the Transportation Security Administration (TSA). The expertise and capability of the seven procurement offices mirrors the expertise and capability they had before creation of DHS, with staff size that ranged from 21 to 346 procurement personnel. DHS established an eighth acquisition office, the Office of Procurement Operations (OPO), under the direct supervision of the Office of the Chief Procurement Officer (OCPO), to service the other DHS components and manage department-wide procurements. Many DHS procurement offices reported that their lack of staffing prevents proper procurement planning and severely limits their ability to monitor contractor performance and conduct effective contract administration. The FY 2007 DHS Appropriations Act provides over 400 additional contract specialist positions to alleviate part of the shortfall. Moreover, DHS is planning a contracting fellows program with up to 100 entry-level positions to begin in FY 2008. OCPO is assisting program offices with acquisition planning, including templates and one-on-one assistance.

In addition to awarding contracts, OCPO helps DHS components adhere to standards of conduct and federal acquisition regulations in awarding and administering contracts. This oversight role involves developing department-wide policies and procedures and enforcing those policies and procedures. Both our office and GAO have reported that the OCPO needs more staff and authority to carry out its general oversight responsibilities. GAO recommended that DHS provide OCPO with sufficient resources and enforcement authority to enable effective department-wide oversight of acquisition policies and procedures. We made a similar recommendation.

During FY 2006, the Under Secretary for Management established policies for acquisition oversight and directed each of the nine heads of contracting activities to measure and manage their acquisition organizations.<sup>6</sup> Also, the number of oversight specialists in the Acquisition Oversight Division of OCPO is authorized to expand to nine during FY 2007. OCPO is working to hire the additional staff. OCPO has undertaken an outreach program to involve DHS component staff to manage effectively and assist in acquisition oversight.

We have conducted audits and reviews of individual DHS contracts, such as TSA's screener recruiting and TSA's information technology services. Common themes and risks emerged from these audits, primarily the dominant influence of expediency, poorly defined requirements, and inadequate oversight that contributed to ineffective or inefficient results and increased costs.

The urgency and complexity of DHS's mission will continue to demand rapid pursuit of major investment programs. While DHS continues to build its acquisition management capabilities in the component agencies and on the department-wide level, the business of DHS goes on and major procurements continue to move. On November 2, 2005, DHS announced a multi-year strategy to secure America's borders and reduce illegal immigration, called the Secure Border Initiative (SBI). The SBI procurement presents a considerable acquisition risk because of its size and scope. We see risks and vulnerabilities similar to those identified in previous OIG audits and reviews.

USCG has also encountered a number of challenges in executing its Deepwater Acquisition program despite the expenditure of more than \$3 billion over four years. This is particularly true within the Deepwater surface and air domains. For example, the 110-foot patrol boat conversion project was curtailed at eight cutters due to design, construction, performance, and cost concerns. Further, strict operational restrictions have been imposed on these cutters until additional structural analyses can be completed. In response to these challenges, USCG accelerated plans to design, construct, and deploy the composite Fast Response Cutter (FRC) by more than 10 years as a replacement for the 110-foot patrol boat. However, an independent analysis confirmed that the FRC design is outside patrol boat design parameters, i.e., too heavy, too overpowered, and not streamlined enough to reduce resistance. These concerns led to USCG's April 2006 decision to suspend work on the FRC until these issues could be resolved or an alternative commercial off-the-shelf design identified. In the Deepwater air domain, the HH-65C helicopter<sup>7</sup> and unmanned aerial vehicle (VUAV) acquisitions have encountered schedule delays and cost increases. These Deepwater design, construction, performance, scheduling, and cost issues are expected to present significant challenges to USCG's Deepwater Program during FY 2007.

### Providing Accurate and Timely Procurement Reporting

In July 2006, we reported on the challenges that DHS faces in planning, monitoring, and funding efforts to ensure the accurate and timely reporting of procurement actions to interested stakeholders.<sup>8</sup> The Executive Branch, the Congress, and the public rely upon such procurement information to determine the level of effort related to specific projects and also to identify the proportion of government contracts that are awarded to small businesses. Currently, however, DHS has several different contract writing systems that do not automatically interface with its Federal Procurement Data Systems - Next Generation (FPDS-NG) – a government-wide procurement reporting system accessible by the public. Some of the systems may need to be replaced. Additionally, not all DHS procurements are entered into FPDS-NG. For example, grants, mission assignments, and purchase card data may not be entered into FPDS-NG, resulting in an understatement of DHS's procurement activities.

DHS has undertaken a number of initiatives to improve its reporting on procurement actions. These initiatives include interfacing the various DHS contract-writing systems with FPDS-NG and ensuring that all procurement information is entered into FPDS-NG immediately following contract award. Such initiatives will not only enable real-time reporting of DHS procurement actions; they also will allow DHS to rely on General Services Administration databases to help eliminate contract awards to ineligible vendors. OCPO has worked with each of the DHS components to improve the accuracy, completeness, and timeliness of FPDS-NG data entry. DHS's planned deployment of a single contract writing software system should reduce duplicate data entry for each contract action. DHS is developing routine reporting for non-FPDS-NG instruments.

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<sup>6</sup> DHS, *Acquisition Oversight Program*, Management Directive System MD number 0784, December 19, 2005.

<sup>7</sup> DHS-OIG, *Re-Engining of the HH-65 Helicopter*, United States Coast Guard, OIG-04-50, September 2004.

<sup>8</sup> DHS-OIG, *DHS' Management of Automated Procurement Systems Needs Improvement*, OIG-06-46, July 2006.

## GRANTS MANAGEMENT

Managing the multitude of grant programs within DHS poses a significant challenge. Further, the grant programs of other federal agencies that assist states and local governments in improving their abilities to prepare for, respond to, and recover from acts of terrorism or natural disasters compound this challenge. Congress continues to authorize and appropriate funding for individual grant programs within and outside of DHS for similar, if not identical, purposes. In total, DHS manages over 80 disaster and non-disaster grant programs. For disaster response and recovery efforts, we have identified 36 federal assistance programs that have the potential for duplicating DHS grant programs. DHS must do more to coordinate and manage grants that are stove-piped for specific, but often related purposes to ensure that they are contributing to our highest national preparedness and disaster recovery goals, rather than duplicating one another and being wasted on low-priority capabilities.

Disaster grant awards will be substantially larger than usual with the over \$60 billion that Congress appropriated in late FY 2005 for disaster response and recovery efforts related to Hurricanes Katrina, Wilma, and Rita. In the Gulf Coast states affected by these hurricanes, numerous federal grants from different agencies and components of DHS are going to state and local governments, private organizations, and individuals for response and recovery from the recent hurricanes as well as for the next disaster or terrorist attack. We are currently reviewing disaster grant activities throughout the Gulf Coast and will continue to give special emphasis to Gulf Coast disaster response and recovery grant spending.

In FY 2005, DHS expected to award approximately \$4.6 billion of non-disaster grants. We are reviewing individual state's management of first responder grants and the effectiveness of DHS's system for collecting data on state and local governments' risk, vulnerability, and needs assessments. Our audits have reported on the states' inability to manage effectively and monitor these funds and to demonstrate and measure improvements in domestic security. Our reports also pointed out the need for DHS to monitor the preparedness of state and local governments, grant expenditures, and grantee adherence to the financial terms and conditions of the awards.<sup>9</sup>

DHS faces a challenge in addressing its responsibility to become an efficient and effective grants manager. For example, while the Office of Grants and Training is tasked with financial and programmatic monitoring and oversight for first responder grants, the Office of Justice Programs with the Department of Justice does the accounting for these grants. Given the billions of dollars appropriated annually for disaster and non-disaster grant programs, DHS needs to ensure that grants management internal controls are in place and adhered to, and that grants are sufficiently monitored to achieve successful outcomes. DHS needs to ensure that, to the maximum extent possible, disaster and homeland security assistance go to those states, local governments, private organizations, or individuals eligible to receive such assistance and that grantees adhere to the terms and conditions of the grant awards. DHS needs to continue refining its risk-based approach to awarding first responder grants to ensure that areas and assets that represent the greatest vulnerability to the public are as secure as possible. It must incorporate sound risk management principles and methodologies to successfully prepare for, respond to, recover from, and mitigate acts of terrorism and natural disasters. DHS is planning a study to provide a single grants management system for all non-disaster related grants.

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<sup>9</sup> DHS-OIG, *The State of Indiana's Management of State Homeland Security Grants Awarded During Fiscal Years 2002 and 2003*, OIG-06-19, December 2005; DHS-OIG, *The Commonwealth of Virginia's Management of State Homeland Security Grants Awarded During Fiscal Years 2002 and 2003*, OIG-06-45, July 2006.

## FINANCIAL MANAGEMENT

Financial management has been a major challenge for DHS since its creation in 2003. This year, DHS was again unable to obtain an opinion on its financial statements, and numerous material internal control weaknesses continued to be reported. KPMG, LLP, under contract with the OIG, issued a disclaimer of opinion on DHS's 2003, 2004, and 2005 financial statements.

DHS's material internal control weaknesses ranged from financial management oversight and reporting at the department level to controls surrounding the recording of individual account balances within DHS bureaus. These control weaknesses, due to their materiality, are impediments to obtaining a clean opinion and positive assurance over internal control at the department level.<sup>10</sup> Achieving these departmental goals is highly dependent upon internal control improvements at USCG, ICE, TSA, and the Office of the Chief Financial Officer (OCFO). Many of the Department's material weaknesses, to varying degrees, are attributable to USCG.

To move forward, DHS must develop a comprehensive financial management strategy that addresses organizational resources and capabilities, inconsistent and flawed business processes, and unreliable financial systems. An initial step in this process is to prepare well-developed and comprehensive corrective action plans to address known internal control weaknesses.

Over the past several months, we initiated a series of performance audits to assess the effectiveness of DHS's corrective action plans to address internal control weaknesses. Our objective in conducting these performance audits was to assess the thoroughness and completeness of both the overall corrective action plan process and individual plans developed to address specific weaknesses. The performance audits are intended to provide ongoing feedback to DHS as it is developing and implementing corrective action plans.

During FY 2006, we anticipated progress in addressing internal control deficiencies. DHS identified four areas where internal control weaknesses exist for improvement during the year. However, in our corrective action plan audits, we reported that a coordinated, department-wide effort to develop corrective action plans did not begin until the third quarter of 2006; and DHS is not expected to have a department-wide plan in place until the first quarter of FY 2007. At the component level, we identified well-developed corrective action plans at ICE, but little progress at USCG. During 2006, ICE began its corrective action plan process early and is showing signs of internal control improvements this year. Our audit reports provide recommendations for improvement at the department-wide and component levels.

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<sup>10</sup> DHS-OIG, *Independent Auditors' Report on DHS' FY 2005 Statements*, OIG 06 09, November 2005.



## INFORMATION TECHNOLOGY MANAGEMENT

Integrating the information technology (IT) systems, networks, and capabilities of the various legacy agencies to form a single infrastructure for effective communications and information exchange remains one of DHS's biggest challenges. There are multiple aspects to achieving such an IT infrastructure. For example, creating an adequate capability for relocating mission critical information systems to an alternate disaster recovery site in the event of extended service disruptions or emergency is one concern. Implementing a department-wide program that ensures effective information security controls and addresses IT risks and vulnerabilities is just as key. Further, improved IT planning, requirements identification, and analysis will be essential not only to acquire and implement the systems and other technologies needed to streamline operations within individual DHS component organizations, but also to support effective homeland security information sharing with state and local governments, the private sector, and the public. Without sound department-wide planning, coordination, and direction, the potential for integrating advanced data mining functionality and capabilities to address homeland security issues also will remain untapped.

### Department-wide IT Infrastructure

Creating an adequate disaster recovery capability for DHS's information systems is a major concern. DHS's IT infrastructure remains a collection of legacy networks, systems, and data centers. Several elements of this IT infrastructure do not have the ability to relocate to an alternate site that can be used if their primary facility suffers an extended outage or becomes inaccessible. This inability to restore the functionality of DHS's critical IT systems following a service disruption or disaster could negatively affect accomplishment of a number of essential DHS missions, including passenger screening, grants processing, and controlling the flow of goods across U.S. borders.

However, due to a lack of sufficient funding and an operational program to support an enterprise-wide disaster recovery solution, DHS has been hindered in its efforts to provide an alternate processing facility. Specifically, DHS received a combined \$85 million in FY 2005 and FY 2006 for the development, operations, and maintenance of the National Center for Critical Information Processing and Storage (NCCIPS). The NCCIPS is to provide hosting of departmental applications, network connectivity, and critical data storage under the direction of DHS's Chief Information Officer (CIO). Additionally, DHS has submitted a request for information for a second data center to supplement the NCCIPS. DHS listed the second data center as a large, redundant, secure, scalable capability that will provide DHS with sufficient backup, disaster recovery, and continuity of operations in an emergency. Ensuring that funds provided are spent effectively to achieve the desired disaster recovery capability in a timely fashion will involve significant resources, oversight, and senior management attention.

Similarly, upgrading the DHS data communications infrastructure and consolidating the various organizations that provide data communications support are major undertakings for DHS. Currently, DHS is in the process of addressing these communications requirements, which are critical for exchanging mission-critical information both within DHS and with outside stakeholders. Specifically, DHS is implementing a Multi-Protocol Label Switching (MPLS) technology on top of its asynchronous transfer mode and Frame Relay circuits. DHS hopes this MPLS infrastructure will allow the elimination of redundant firewalls and the replacement of hardware encryption devices with Internet Protocol Security encryption. At the same time, DHS is undertaking an ambitious effort to combine its various internal Security Operations Centers and Network Operations Centers, which help ensure that data communication within DHS, and with



external stakeholders, is secure and functional. Coordinating these related communications upgrade efforts will require significant resources and oversight. Ensuring that DHS data communications activities remain effective and secure during the upgrade and transition also is a major concern.

### Security of IT 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, and addresses the risks and vulnerabilities facing DHS's IT systems.

As we reported in September 2006, based upon its annual FISMA evaluation, excluding its intelligence systems, DHS achieved a significant milestone that will continue to help DHS move toward managing a successful information security program.<sup>11</sup> DHS implemented a department-wide remediation plan to certify and accredit all operational systems by the end of FY 2006. Completion of this task will eliminate a hurdle that prevented DHS from strengthening its security program. In addition, some of the issues that we identified in our FY 2005 FISMA report to assist DHS and its components in the implementation of its information assurance program have been addressed, such as developing a process to maintain a comprehensive inventory.

In addition to our FISMA evaluations, during the past year we conducted information security audits of DHS networks, databases, laptops, and Radio Frequency Identification systems. We also reviewed major programs, such as the Transportation Workers Identification Credential and U.S. Visitor and Immigrant Status Indicator Technology (US-VISIT). Based on the results of these audits, as well as our FISMA evaluation, and despite several major improvements in DHS's information security program, DHS organizational components, through their Information Systems Security Managers, have not completely aligned their respective information security programs with DHS's overall policies, procedures, and practices. For example:

- All operational systems have not been adequately certified and accredited.
- All components' information security weaknesses are not included in a Plan of Action and Milestones report.
- Data in the enterprise management tool, Trusted Agent FISMA, is not complete or current.
- System contingency plans have not been tested for all systems.
- Standard configurations have not been fully implemented.

Further, while DHS has issued substantial guidance designed to create and maintain secure systems, there exist areas where agency-wide information security procedures require strengthening: (1) certification and accreditation; (2) vulnerability testing and remediation; (3) contingency plan testing; (4) incident detection, analysis, and reporting; (5) security configurations; and (6) specialized security training. To address these issues, the CIO must identify ways to improve the review process and increase the accountability of DHS component organizations.

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<sup>11</sup> DHS-OIG, *Evaluation of DHS' Information Security Program for Fiscal Year 2006*, OIG-06-62, September 2006.

Additionally, DHS is required to protect its intelligence systems. We reported that DHS should establish comprehensive management authority over the information security program for DHS's intelligence systems. DHS must also ensure the confidentiality, integrity, and availability of vital intelligence information.

### DHS Component IT Management

IT management at the subcomponent-level remains a major challenge, as demonstrated by our audits and subsequent reports on the IT programs and initiatives of selected DHS directorates and organizations. We repeatedly identified problems with outdated or stove-piped systems, at times supporting inefficient business processes. Planning to modernize IT was unfocused, often with inadequate requirements identification, analysis, and testing to support acquisition and deployment of the systems and other technologies needed to improve operations. Insufficient training and guidance to support IT users were typical.

For example, in September 2005, we reported that U.S. Citizenship and Immigration Services (USCIS) had not recognized the potential benefits of streamlining processes and leveraging IT to help meet its backlog reduction goals.<sup>12</sup> USCIS processes were primarily manual, paper-based, and duplicative, resulting in an ineffective use of resources to ship, store, and track immigration files. Adjudicators used multiple and non-integrated IT systems to perform their jobs, which reduced productivity and data integrity. IT software and hardware systems also were outdated and not well configured to meet user needs. Further, despite federal requirements, USCIS had not taken a focused approach to modernizing processes and systems to accomplish its citizenship and immigration services mission. We conducted a follow-up review of USCIS efforts to address our earlier report recommendations. While USCIS has made some progress by placing priority on business transformation, taking steps to centralize authority for IT personnel, initiating business process reengineering activities, and upgrading desktops and servers at key field locations, USCIS would benefit from improvements in centralizing IT operations and refining IT management practices. To be successful, USCIS also must ensure that its transformation strategy is clearly defined and managed.

Similarly, we reported in September 2005 that EP&R did not effectively manage IT to support incident response and recovery.<sup>13</sup> Specifically, although EP&R has made progress in IT planning, including development of FEMA's first IT strategic plan, the IT plan aligns with the agency's outdated strategic plan and does not reflect integration into DHS. As such, the IT plan provides no assurance that FEMA's systems will support accomplishment of department-wide missions and goals. Further, even though FEMA staff provided significant service during the 2004 hurricanes, additional guidance and training are needed to ensure that IT systems users have the knowledge and information required to perform their jobs in future response and recovery efforts. Moreover, FEMA's systems are not integrated and therefore do not effectively support information exchange among emergency managers. Inadequate IT requirements definition limits the agency's ability to identify alternatives to existing systems while insufficient test facilities hinder comprehensive evaluation of new systems prior to deployment. Our follow-up assessment of FEMA's efforts to upgrade its principal disaster management system shows that although the agency has made short-term progress in addressing problems in each of these areas, more remains to be done to address long-term planning and systems integration needs.

<sup>12</sup> DHS-OIG, *USCIS Faces Challenges in Modernizing Information Technology*, OIG-05-41, September 2005.

<sup>13</sup> DHS-OIG, *Emergency Preparedness and Response Could Better Integrate Information Technology with Incident Response and Recovery*, OIG-05-36, September 2005. On October 1, 2005, EP&R was dismantled, with preparedness functions moved to the new Preparedness Directorate. FEMA, originally part of EP&R, became a separate DHS entity that reports directly to the Secretary and retained responsibility for consequence management after catastrophes, including response and recovery activities.

Our reviews of major IT programs and initiatives of various components' management indicate similar problems. For example, in September 2005 we reported that FEMA could benefit from improvements to its six-year, \$1.5 billion flood map modernization program to digitize flood maps used to identify flood zones and determine insurance requirements.<sup>14</sup> Although FEMA is making progress in the program, its Multi-Year Flood Hazard Plan does not effectively address user and funding needs. Current policies, agreements, and information sharing mechanisms do not effectively support coordination and cooperation among mapping stakeholders. Further, FEMA has made limited progress in developing a web-based mapping system due to unclear contractor expectations, underestimation of program scope and complexity, and poorly defined requirements, resulting in significant system acquisition delays and cost overruns. FEMA can strengthen its flood map modernization program by reviewing and revising its mapping plan, enhancing program guidance, increasing contractor oversight, and improving coordination with stakeholders. Clearly defining requirements and contractor expectations and maintaining standard methodologies for mapping system development also would help ensure program success.

In August 2006 we reported on improvements that USCG could make in its efforts to design and implement command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) systems as part of its estimated \$20 billion Integrated Deepwater System (Deepwater) program.<sup>15</sup> Although USCG is making progress in the program, its limited influence over contractor decisions toward meeting Deepwater IT requirements and a lack of discipline in requirements change management processes provide little assurance that the requirements remain up-to-date or are effective in meeting program goals. In addition, certification and accreditation of Deepwater C4ISR equipment has been difficult to achieve and the contractor has not followed established IT testing procedures consistently, placing systems security and C4ISR operations at risk. Further, due to limited oversight, as well as unclear contract requirements, the agency cannot ensure that the contractor is making the best decisions toward accomplishing Deepwater IT goals. Insufficient C4ISR funding has restricted accomplishing the "system-of-systems" objectives that are fundamental to ensuring interoperability of Deepwater assets, such as ships and aircraft. Meeting the training and IT support needs of Deepwater C4ISR users also is key.

## Information Sharing

The Homeland Security Act of 2002<sup>16</sup> makes coordination of homeland security communication with state and local government authorities, the private sector, and the public a key DHS responsibility. However, due to time pressures, DHS did not complete a number of the steps essential to effective planning and implementation of the Homeland Security Information Network (HSIN)—the sensitive, but unclassified, system it instituted to help carry out this mission. As such, effective sharing of the counter-terrorist and emergency management information critical to ensuring homeland security remains an ongoing challenge for DHS.

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<sup>14</sup> DHS-OIG, *Challenges in FEMA's Flood Map Modernization Program*, OIG-05-44, September 2005.

<sup>15</sup> DHS-OIG, *Improvements Needed in the U.S. Coast Guard's Acquisition and Implementation of Deepwater Information Technology Systems*, OIG-06-55, August 2006.

<sup>16</sup> P.L. 107-296.

As we reported in June 2006, DHS did not clearly define HSIN's relationship to existing collaboration systems and also did not obtain and address requirements from all HSIN user communities in developing the system.<sup>17</sup> DHS did not adequately evaluate each of its three major HSIN releases prior to their implementation. Further, DHS has not provided adequate user guidance, including clear information sharing processes, training, and reference materials. Without establishing a baseline and developing specific performance measures, DHS has no effective way to track or assess information sharing using HSIN. As a result of these system planning and implementation issues, HSIN is not meeting user needs and supporting state and local sharing of and situational awareness and counter-terrorist information. Therefore, potential users do not regularly use HSIN. Instead, they resort to pre-existing systems and telephone calls to share information, perpetuating the ad hoc, stove-piped information-sharing environment that HSIN was intended to correct. Resources, legislative constraints, privacy, and cultural challenges – often beyond the control of HSIN program management – also pose obstacles to HSIN's success.

On a broader scale, DHS is challenged with incorporating data mining into its overall strategy for sharing information to help detect and prevent terrorism. Data mining aids agents, investigators, and analysts in the discovery of patterns and relationships from vast quantities of data. The Homeland Security Act authorizes DHS to use data mining and other tools to access, receive, and analyze information. Our August 2006 report on DHS data mining activities identified various stove-piped activities that use limited data mining features.<sup>18</sup> For example, CBP performs matching to target high-risk cargo. The U.S. Secret Service automates the evaluation of counterfeit documents. TSA collects tactical information on suspicious activities. ICE detects and links anomalies indicative of criminal activity to discover relationships. However, without department-wide planning, coordination, and direction, the potential for integrating advanced data mining functionality and capabilities to address homeland security issues remains untapped.

## INFRASTRUCTURE PROTECTION

DHS is responsible for coordinating the national effort to enhance protection of critical infrastructure and key resources (CI/KR) of the United States. Specifically, DHS has direct responsibility for leading, integrating, and coordinating efforts to protect the chemical industry; commercial facilities; dams; emergency services; commercial nuclear reactors, materials, and waste; information technology; telecommunications; postal and shipping; transportation systems; and government facilities. The issuance of the National Infrastructure Protection Plan (NIPP) in June 2006 marked an unprecedented collaboration among federal, state, local, tribal, and private sector partners to establish the coordinated approach that will be used to establish national priorities, goals, and requirements for CI/KR protection so that federal funds and resources are applied in the most effective manner to reduce vulnerability, deter threats, and minimize consequences of attacks and other incidents. In addition, DHS has an oversight role in coordinating the protection of CI/KR, where other federal agencies have the primary protection responsibility. Those CI/KR include agriculture and food; the defense industrial base; energy; public health and healthcare; national monuments and icons; banking and finance; and water and water treatment systems.

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<sup>17</sup> DHS-OIG, *Homeland Security Information Network Could Support Information Sharing More Effectively*, OIG-06-38, June 2006.

<sup>18</sup> DHS-OIG, *Survey of DHS Data Mining Activities*, OIG-06-56, August 2006.

The DHS FY 2007 Appropriations Act granted the Secretary of Homeland Security authority to issue regulations that establish risk-based performance standards for security of chemical facilities, and require vulnerability assessments and development and implementation of site security plans. However, the chemical sector is just one segment of an enormous and complex distribution of the nation's CI/KR. Reliance on the private sector as well as our federal partners to deter threats, mitigate vulnerabilities, or minimize the consequences associated with a terrorist attack or other incident creates a void in the assurance that all CI/KR are adequately protected. Combined with the uncertainty of the terrorist threat and other manmade or natural disasters make the effective implementation of protection efforts a great challenge.

To assist in overcoming this great challenge, the National Infrastructure Protection Plan envisions a comprehensive, national inventory of assets, known as the National Asset Database (NADB), to help carry out these responsibilities. A maturing NADB is essential to the development of a comprehensive picture of the nation's CI/KR as well as management and resource allocation decision-making. As we reported in FY 2006, DHS is improving the development and quality of the NADB. DHS is also strengthening its relationships with other responsible federal departments. Standardizing vulnerability assessment methodologies, such as the Risk Analysis and Management for Critical Asset Protection tool, will also help the department better understand CI/KR.

We are currently reviewing the Department's efforts to coordinate infrastructure protection activity within the food and agriculture sector, as well as implement buffer zone protection plans at critical infrastructure and key resource sites across the country. We will continue to monitor and review how DHS uses the NADB to support its risk management framework, how it coordinates infrastructure protection with other sectors, and how its pursuit of basic vulnerability assessment standards can help develop overarching departmental priorities.

## **BORDER SECURITY**

One of DHS's primary missions 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 DHS and is dependent on the coordinated accomplishment of each agency's roles, as well as, joint efforts with other agencies.

During FY 2006, the White House and DHS announced a comprehensive multi-year plan to secure the borders and reduce illegal immigration, Secure Border Initiative (SBI). DHS created a program executive office within the policy directorate to oversee, plan, and coordinate implementation of SBI across DHS. This systems approach should address some of the previously reported challenges. For example, last year we reported that CBP and ICE continue to experience difficulties in coordinating and integrating their respective operations.<sup>19</sup> 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. Another example is the integration of border surveillance technologies. Previously, we reported that border surveillance cameras were not integrated with ground sensors, and sensors are plagued by false alarms. We recommended that CBP improve the effectiveness of remote surveillance technology.<sup>20</sup>

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<sup>19</sup> DHS-OIG, *An Assessment of the Proposal to Merge Customs and Border Protection with Immigration and Customs Enforcement*, OIG-06-04, November 2005.

<sup>20</sup> DHS-OIG, *A Review of Remote Surveillance Technology Along U.S. Land Borders*, OIG-06-15, December 2005.



Maintaining a systems approach to addressing the challenge of securing our borders will be a major challenge as the SBI focus shifts to the DHS components' implementation of the various plans comprising SBI. The major planned efforts under SBI are led by the three lead components for immigration and border security.

- ICE leads plans to improve the apprehension, detention, and removal of illegal aliens, and to expand worksite enforcement. Improvements in alien detention and removal efforts require coordinated efforts across DHS and collaboration with the Department of Justice and other agencies sharing responsibility for this function.
- CIS leads plans for a temporary guest worker program; streamlining immigration benefits processes; and expanding the employment verification program. CIS plans focus on automating and improving processes to (1) increase efficiency, (2) alleviate chronic backlogs in benefit application processing and adjudications, and (3) handle anticipated increases in applicants under proposed expanded guest worker initiatives.
- CBP leads a major investment program to gain control of the borders called SBInet. The SBInet objective is to develop solutions to manage, control, and secure the borders using a mix of technology, infrastructure, personnel, and processes. While SBInet is a new program, it replaces two previous efforts to gain control of the borders: the Integrated Surveillance Intelligence System (ISIS) and the America's Shield Initiative (ASI). CBP awarded a multiple year systems integration contract in September 2006 to begin the SBInet multi-billion dollar initiative.

We have monitored the initiation of the SBInet program and provided a risk advisory with recommendations to address observed weaknesses in the program. The SBI procurement presents a considerable acquisition risk because of its size and scope.

Our main concern about SBInet is that DHS is embarking on this multi-billion dollar acquisition project without having laid the foundation to effectively oversee and assess contractor performance and effectively control cost and schedule. DHS has not properly defined, validated, and stabilized operational requirements and needs to do so quickly to avoid rework of the contractor's systems engineering and the attendant waste of resources and delay in implementation. Moreover, until the operational and contract requirements are firm, effective performance management and cost and schedule control is precluded. DHS also needs to move quickly to establish the organizational capacity to properly oversee, manage, and execute the program.

Other DHS components share border security responsibilities and are necessarily part of a comprehensive solution to border and immigration control. For example, the US-VISIT Program is responsible for developing and fielding DHS's entry-exit system. It also coordinates the integration of two fingerprint systems: DHS's Automated Biometric Identification System and the Federal Bureau of Investigation's Integrated Automated Fingerprint Identification System. While US-VISIT has some early accomplishments, the tracking of foreign visitors and immigrants still has weaknesses, especially on exit, that should be addressed under a systems approach.

DHS also needs to address other weaknesses as part of the comprehensive solution to immigration and border control. 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.



Differentiating the two requires timely intelligence. The ability of CBP to gather intelligence information and distribute it 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.

We will continue to maintain an aggressive oversight program for DHS's border security initiatives to ensure that DHS applies a systems approach and carries out the resultant plans and programs in an economical, efficient, and effective manner.

## TRANSPORTATION SECURITY

### Aviation

The *Aviation and Transportation Security Act (ATSA)*,<sup>21</sup> enacted in response to the events of September 11, 2001, mandated that TSA hire and train thousands of screeners for the Nation's 438 commercial airports by November 19, 2002. As a result, TSA ultimately hired 45,000 screeners. Our undercover audits 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 agreed with our conclusion that significant improvements in screener performance will only be possible with the introduction of new technology. Additionally, TSA has completed implementation of most of our recommendations in these areas and is continuing to work on the remaining recommendations. TSA has conducted several pilot programs at airports nationwide, such as the explosive trace portal (ETP) and the explosive detection scanner to facilitate enhanced screener performance.<sup>22</sup> We plan to evaluate TSA's performance in implementing these technologies.

TSA has been largely successful in its effort to implement the ATSA requirement that all checked bags be screened by explosives detection systems. However, improvements in screening passengers and their carry-on bags for explosives require additional work. For example, piloting of whole-body scanners – backscatter x-ray machines – at U.S. airports has been delayed until FY 2007. The only recent technology deployed to augment traditional passenger screening is ETP, which can detect explosive residue on passengers' bodies and clothing. Currently, TSA has deployed 94 ETPs at 37 different U.S. airports. However, on September 3, 2006, TSA's Chief Technology Officer said that some unanticipated ETP problems have temporarily halted deployment. TSA continues to solicit industry to submit technologies for evaluation and possible use in passenger and baggage screening. TSA recently issued requests for information soliciting manufacturers of commercially available whole-body imaging and advanced x-ray technologies to submit their technologies for evaluation.

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<sup>21</sup> P.L. 107-71.

<sup>22</sup> DHS-OIG, *Audit of Passenger and Baggage Screening Procedures at Domestic Airports*, OIG-04-37, September 2004, and DHS-OIG, *Follow-up Audit of Passenger and Baggage Screening Procedures at Domestic Airports (Unclassified Summary)*, OIG-05-16, March 2005.

## Rail and Mass Transit

Passenger rail transit, bus, and ferry systems are extremely vulnerable to terrorist attack as evidenced by the attacks on passenger rail facilities in Madrid, London, and India. Surface transportation modes in the United States are inherently difficult to secure because of their open accessibility (typically, many entry and exit points), high ridership (nearly 9 billion transit trips per year on buses and subways), and extensive infrastructure (160,000 miles of interstate highway and other major roads included in approximately 3.8 million miles of roads nationwide, and more than 600,000 bridges and tunnels). About 500 bridges and tunnels have been identified as playing key economic or traffic handling roles, and, therefore, are potential terrorist targets. Although the FY 2007 DHS Appropriations Act provides \$175 million for rail and public transit safety — an increase of \$25 million over FY 2006 — the primary focus for transportation security and the accompanying resources continues to tilt heavily toward aviation security.

DHS has recently begun work in this area. Through the National Infrastructure Protection Plan (NIPP), DHS has established a forum and process to enhance coordination among federal, state, and local government entities for the communication and exchange of information. In one initiative to address vulnerabilities in surface transit modes, TSA led the formation of the Transportation Sector Government Coordination Council, which called for establishment of coordinating councils in each transportation mode. TSA leads a council, which includes the Department of Transportation (the Federal Transit Administration and the Federal Railroad Administration), created in March 2006 for transit and commuter and long-distance rail. This council's objective is to facilitate regional engagement and bring together federal, state, and local government partners and regional mass transit stakeholders in efforts to enhance security through consistent and effective security strategies and programs.

While the majority of mass transit systems in the nation are owned and operated by state and local governments and private industry, securing these systems is a shared responsibility between federal, state, and local partners. DHS has made millions of dollars available through the Transportation Security Grant Program, Homeland Security Grant Program, Highway Watch Program, Urban Area Security Initiative, and other funding methods. DHS also trains and deploys manpower for high-risk areas through the Multi-Modal Security Enhancement Teams and Surface Transportation Security Inspection Program Inspectors; and develops and tests new technologies, such as more effective chemical and explosive detection equipment, mobile security checkpoints, and video surveillance systems. Nevertheless, the task of prioritizing and securing surface transportation is daunting. While TSA, its government partners, and industry owners and operators have increased their vigilance, more robust information exchange, threat detection, and preparedness measures must be undertaken to ensure the security and resilience of the surface transportation system.

## TRADE OPERATIONS AND SECURITY

Trade operations and security is primarily the responsibility of CBP, although USCG and ICE also play important support roles. CBP has the counterbalancing missions of facilitating legitimate trade and 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. In a typical year, CBP processes millions of sea containers; semi-tractor trailers; rail cars; and tons of bulk cargo and liquids; such as chemicals, crude oil, and petroleum products. CBP also processes or reviews all of the personnel associated with moving this cargo across U.S. borders or to U.S. seaports.

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 ports 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 highest risk cargo on which to focus its limited resources. Other initiatives include developing a “smart” container that will provide extra protection or warning of tampering or intrusion. In support of its trade mission, CBP is undertaking an extensive and long-term effort to develop a new system, Automated Commercial Environment, to replace older, less effective, and less capable trade processing systems. This effort is not scheduled to be fully completed until 2011, and will cost more than \$3.3 billion dollars.

The Automated Targeting System (ATS) helps CBP identify high-risk cargo for inspection. In 2005, we reported concerns about the data to which ATS targeting rules are applied, the use of examination results to refine ATS targeting rules, and physical controls over cargo containers targeted for examination.<sup>23</sup> Ongoing reviews will provide further recommendations about the use of intelligence, the development of performance measures, cargo inspection, training, and control and inspection of high-risk sea containers.

USCG 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. This too is a daunting management challenge.

To implement the *Maritime Transportation Security Act of 2002* in a timely and effective manner, USCG must balance the resources devoted to the performance of homeland and non-homeland security missions; improve the performance of its homeland security missions; maintain and re-capitalize USCG’s Deepwater fleet of aircraft, cutters, and small boats; restore the readiness of small boat stations to perform their search and rescue missions; and increase the number and quality of resource hours devoted to non-homeland security missions. For example, while overall resource hours devoted to USCG’s homeland security missions grew steadily from FY 2001 through FY 2005,<sup>24</sup> USCG continues to experience difficulty meeting its performance goals for homeland security missions.<sup>25</sup>

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<sup>23</sup> DHS-OIG, *Audit of Targeting Oceangoing Cargo Containers*, OIG-05-26, July 2005.

<sup>24</sup> FY 2001 through FY 2005.

<sup>25</sup> DHS-OIG, *Annual Review of Mission Performance, United States Coast Guard (FY 2005)*, OIG-06-50, July 2006.

## **Appendix A**

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## Management's Response to the Office of the Inspector General's Report on Major Management Challenges Facing the Department of Homeland Security

The Department of Homeland Security has steadfastly worked to resolve the challenges identified in the Inspector General's FY 2005 report. Two challenges identified in that report are no longer reported as major management challenges; Consolidating the Department's components, and Human Capital Management. The reduction in the number of major challenge areas evidences the maturing of DHS as it continued its pursuit of organizational excellence; strategic goal number seven during FY 2006.

The Department will continue to address the unresolved management challenges identified in the Inspector General's report of 2005, many of which require more than twelve months to completely overcome. The following tables highlight the accomplishment of the Department during FY 2006, and some of the remaining plans to be completed in the future to overcome these challenges.

### FY 2006 Challenge 1: Catastrophic Disaster Response and Recovery

#### FY 2005 Challenge 1: Disaster Response and Recovery

The report raised concerns regarding weaknesses in FEMA information systems, the flood map modernization program, contract management, grants management, and the individual assistance program. In addition, since FEMA's programs are largely administered through grants and contracts, the circumstances created by Hurricanes Katrina and Rita provided an unprecedented opportunity for fraud, waste, and abuse.

#### FEMA Information Systems: (2005 and 2006)

##### 2006 Accomplishments

- FEMA has completed a number of actions to implement recommendations contained in the Office of Inspector General's September 2005 report, *Emergency Preparedness and Response Could Better Integrate Information Technology with Incident Response and Recovery* (OIG-05-36).
- The Information Technology Services Division (ITSD) and FEMA program offices partnered with the Emergency Management Institute (EMI) to improve National Emergency Management Information System (NEMIS) training and guidance by developing a training plan and conducting field training and train-the-trainer activities.
- FEMA offers online NEMIS training and provides up-to-date system user guidance.
- FEMA created the Project Management Office to facilitate requirements gathering and communication.
- ITSD developed the Emergency Management Mission Integrated Environment (EMMIE) based on requirements collected by an interdisciplinary team and with all grant holders invited to participate.
- The Office of Inspector General just completed a review and assessment of FEMA's progress in implementing their recommendations, which is documented in their Draft Letter Report: *FEMA's Progress in Addressing Information Technology Management Weaknesses*. The letter noted that FEMA had made progress in many areas, particularly short-term modifications to prepare for the 2006 hurricane season. However, much work remains to address long-term IT and system development efforts. The Inspector General's letter stated that FEMA's resource challenges, including personnel needs, time limitations, and funding constraints, have a significant impact on implementing the Inspector General's recommendations. FEMA generally concurs with the assessment.
- The Chief Information Officer has reprioritized its resources to refine and refocus its efforts to address audit findings.

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**Remaining Plans**

- The Chief Information Officer will continue providing the Office of Inspector General with reports on the status of milestones on the unfinished Plans of Action and Milestones (POA&M) every 90 days.
- The Chief Information Officer holds bi-weekly meetings to ensure that progress is made on implementing the recommendations. The senior leadership of FEMA is committed to addressing the deficiencies in all audit reports and is monitoring progress under the POA&M during performance reviews.
- The Chief Information Officer is attending an off-site the end of October, after which plans will be reviewed, developed, or revised, as appropriate, to accomplish Agency goals.
- The Enterprise Architecture (EA) Office is staffing up to complete the remaining As-Is Enterprise Architecture in order to support analysis toward development of the Target EA. Portions of the Target EA are already underway. The EA Program Management Plan, containing a roadmap for full compliance with OMB EA Assessment Framework, is currently being updated. Additionally, regular meetings with the DHS EA Staff are conducted to ensure alignment with the DHS.

**Flood Map Modernization Program: (2005 & 2006)****2006 Accomplishments**

- FEMA performed a review of Flood Map Modernization, including input from Congress, GAO, Inspector General, and key mapping stakeholders. As a result, FEMA is implementing a Mid Course Adjustment designed to provide more accurate flood data while also producing digital flood maps for a significant portion of the Nation. FEMA reported on the Mid-Course Adjustment in the "Flood Map Modernization 2006 Report to Congress" dated February 10, 2006.
- Fully operational online capability for the Mapping Information Platform (MIP) was completed February 2006 for engineering/mapping tools, project management, data storage, and other functions.
- Work was completed with the USACE to successfully roll out a policy for provisionally accrediting levees that provides communities with additional time to gather data needed to assess the protective capabilities of levees while still allowing critical new flood hazard data to be released to communities to guide new development.
- FEMA collaborated with mapping stakeholders to update its plan for Flood Map Modernization to begin to reflect the Mid-Course Adjustment. The updated plan will be released in October 2006, providing a 60-day comment period to allow stakeholders to provide feedback.
- A new, web-based application within the Mapping Information Platform (MIP) was released on June 12, 2006 that enables licensed land surveyors and professional engineers to obtain an official map determination from FEMA in minutes. Traditional processes average several weeks.

**Remaining Plans**

- Digital Geographic Information Systems (GIS) flood data will be available for 50% of the nation's population in the first quarter of FY07.
- By the end of FY07, digital GIS flood data will be available for 60% of the nation's population, and 35% of the population will have effective, modernized maps.
- By the end of FY 2008, digital GIS flood data will be available for 70 % of the nation's population, and 50% of the population will have effective, modernized maps.
- Continue to increase stakeholders' awareness of and usage of risk data, providing mentoring and assistance to increase partner capabilities to mitigate risk, and improve customer service.
- Continue to assist and encourage states and local communities to partner with the Flood Map Modernization Program.

**National Flood Insurance: (2006)****2006 Accomplishments**

- The National Flood Insurance Program (NFIP) has had 26 consecutive months of uninterrupted net policy growth.
- For the first time ever, additional policy sales have resulted in more than 5 million flood insurance policies in force across this country under the NFIP.
- For the first time, over \$1 Trillion of insurance is in force under the NFIP.
- The NFIP paid more than 160,000 NFIP claims from Hurricanes Katrina & Rita for almost \$16 Billion, many times more than the highest previous amounts, in the more than 35 year history of the NFIP.
- Introduced new procedures that allowed for an expedited claims process to decrease the time needed to close claims for policyholders which allowed them to get paid for their losses more quickly.
- Developed and mailed comprehensive informational materials explaining what is, and is not, covered under the NFIP, as well as how claims are adjusted, to all existing and new (over 5 million) policyholders as required by the National Flood Insurance Reform Act of 2004.
- Developed the first ever formal NFIP claims appeal process for policyholders who may wish to challenge claims adjustments on their individual NFIP claims.

**Remaining Plans**

- Continue implementing and tracking program performance and effectiveness to ensure that sufficient cash reserves will be available to pay all losses and related expenses for the average historic loss year.

**Contract Management: (2005 and 2006)****2006 Accomplishments**

- Established internal control procedures for the contract administration and management of FEMA's Individual Assistance Program.
- For Individual Assistance Program, implemented training for proper contract administration procedures for FEMA's Program Offices and Contracting Officer Technical Representatives.
- Conducted internal acquisition review & procurement assessments of procurements of greater than \$1 million prior to contract awards.
- Increased staffing level and warrant authorities of contract specialists

**Remaining Plans**

- Continue emphasis on establishing and disseminating policies and procedures for sound and proper acquisition functions. Established procedures will ensure consistency and adherence to prescribed policies and procedures.
- Continue training of contract administration procedures for individual assistance program.
- Continue to fill staffing level gaps and provide training opportunities to improve competency and contract specialists' certification levels.

**Grants Management: (2005 and 2006)****2006 Accomplishments**

- The FEMA Chief Procurement Officer (CPO) has developed a special monitoring plan to focus on the Katrina grants issues. This effort involves working with the FEMA regional offices to ensure that their monitoring of the Gulf Coast States is compliant with federal grants requirements. Appropriate analysis and follow-up are occurring. FEMA's Grant Office is the "premier" office and model for DHS.
- The CPO Grants Branch has an on-going quality assurance effort that reviews each quarter the regional office monitoring of state grant reporting.
- The CPO has developed a pilot effort to help states improve their sub-recipient monitoring and has field tested that pilot in two states.
- Grants management training has been held in both regional offices and long term field offices.
- A detailed review of the procurement practices of five sub-grantees was conducted.

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**Remaining Plans**

- Work with the Regional offices to increase their focus on grantee financial and progress reporting.
- Based on the positive results of the sub-grantees procurement reviews conducted for the Mitigation program, develop a grantee/sub-grantee procurement technical assistance process for the Public Assistance program.
- Work with the long term recovery offices to provide training and technical assistance and support their efforts to hire grants management specialists.
- Complete development of EMMIE (FEMA's Electronic Grants Disaster Systems) in FY07.

**Managing Assistance and Housing for Evacuees: (2006)**

**2006 Accomplishments**

- FEMA is expanding both on-line and telephone 800 number capacities to register up to 200,000 applicants daily and is pilot testing mobile registration intake centers.
- Real-time identification verification via contract with ChoicePoint is now in place on both FEMA's 800# and on-line registration systems. ChoicePoint is a contractor that provides identification verification services.
- A contract was placed that allows FEMA to issue authorization codes for hotel accommodations at the time of registration.
- FEMA has put in place a Memorandum of Agreement (MOA) with the Katrina Fraud Task Force headed by the U.S. Department of Justice's Criminal Division and the Assistant United States Attorney and consisting of numerous agencies' Offices of Inspector General to allow limited access to FEMA's Privacy Act Disaster Recovery Assistance Files for the purposes of identifying and investigating fraud cases.
- Recovery Strategy RS-2006-1, Mass Sheltering and Housing Assistance was published July 24, 2006. This strategy clarifies how FEMA will manage sheltering needs for catastrophic disasters, as well as coordination on out-of-state sheltering assistance.
- FEMA has developed the website Housing Portal (<https://rims.fema.gov/hportal/home.htm>). The Housing Portal consolidates rental resources for evacuees identified by federal agencies, private organizations, and individuals.
- FEMA has entered into a Matching Agreement with the U.S. Department of Housing and Urban Development (HUD) for a computer matching program that identifies FEMA applicants who are receiving excess or duplicate housing assistance from both FEMA and HUD.
- The National Shelter System (NSS), a web-based data system to allow users to identify, track, analyze, and report shelter data in a consistent and reliable manner, is operational.

**Remaining Plans**

- FEMA is working with the Office of Chief Counsel and other appropriate parties to engage other Federal partners, such as the Internal Revenue Service (IRS) and the Social Security Administration (SSA), for data-sharing that will not only prevent fraud but ensure proper assistance to registrants. FEMA continues to explore information sharing capabilities with the Department of Health and Human Services, the SSA, and the IRS.
- Outreach and user training for FEMA, the American Red Cross, State, and local governmental agencies is being undertaken to affect implementation of the NSS.
- NSS maintenance, improvements and usage will be ongoing and tested using real-time events.
- FEMA is developing planning guidance and will provide contract assistance to hosting States and local governments to plan for large scale mass sheltering and housing assistance.
- FEMA has convened a Disaster Housing Task Force to develop the necessary policies, procedures, and other documentation to support a fully functional and operational housing element under the National Response Plan's Emergency Support Function #6, Mass Care, Housing, and Human Services.
- FEMA is undertaking the Joint Housing Solutions Group and the Alternative Housing Pilot Program in the Gulf Coast States to identify test, and evaluate alternative housing options and strategies.

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- Mass Care and Housing standard operating procedures (SOPs) are being completed and updated at the national and regional levels. We anticipate conducting five regional workshops (with participation from two regional offices each) to update the regional SOPs.
- FEMA will be implementing provisions of the Post-Katrina Emergency Management Reform Act of 2006, which includes changes to the Housing program, an Individual Assistance Pilot Program, a National Disaster Housing Strategy, as well as other operational and program changes and strategy development requirements.

## **FY 2006 Challenge 2: Acquisition and Contract Management**

### **FY 2005 Challenge 3: Contract Management**

The report stressed the importance of monitoring adherence to ethical standards of conduct. It noted the shortage of trained program managers and a lack of a Department-wide policy. The Investment Review Board model needs improvements. The procurement function needs its undermanned staffing rectified and faces a challenge in managing several new large and complex programs. A comprehensive independent oversight program is needed.

### **Standards of Conduct / Ethical Conduct: (2005 and 2006)**

#### **2006 Accomplishments**

- Participation of senior program and procurement officials in management and ethics training.

#### **Remaining Plans**

- Completion of senior program and procurement officials' management and ethics training. (Target date Q1 FY07).

### **Program Management Training / Comprehensive Acquisition Guidance: (2005 and 2006)**

#### **2006 Accomplishments**

- Dissemination of the Acquisition Professional Management Directive to identify and certify appropriately trained and experienced program managers, contracting officer technical representatives, and authorized buying agents. DHS has certified 348 Program Managers since 2004 and continues to focus on qualifications and placement (completed Q3 FY 04, ongoing).

#### **Remaining Plans**

- Support leadership and innovation in federal acquisition and apply best practices to DHS procurements: Department participation in the knowledge management portal, which provides federal agency guidance on procurement policy and procedures, will in turn provide DHS with information related to emergency incident policies and procedures, the availability of Interagency Agreements, and training opportunities. Finally, the recently published FEMA Emergency Acquisition Field Guide will clarify Department and service provider roles and responsibilities (target completion date Q1 FY 07).

**Investment Review Board Process: (2005 and 2006)**

**2006 Accomplishments**

- Established a Program Management Council to improve program management practices among DHS Components. The Council provides a forum for discussion and sharing of best practices, improves the quality and consistency of Program Management across the department, and supports expansion of the acquisition career field to other areas of expertise (e.g. Information Technology, Logistics, Finance, Testing, etc).
- Improved the DHS management directive for investment review processes by providing greater clarity on DHS policies and procedures. This Management Directive (MD) establishes the Investment Review Process (IRP) to provide Departmental oversight of major investments throughout their lifecycles and to identify cross-programmatic efforts. Developing and maintaining the capability needed to achieve Department of Homeland Security (DHS) missions requires a robust investment program.
- Prepared a DHS Investment Management Handbook guide to the Investment Review Process (IRP) and supplements Management Directive (MD) 1400, Investment Review Process. It contains guidelines, time frames, and charters to assist projects in understanding and implementing the directive. The focus is on explaining how the process works, defining the roles involved further than discussed in the MD 1400, and providing the templates that facilitate the process so that the IRP can become an integral part of the management of the investment.
- DHS components are now required to report in status of major investments quarterly. Information is submitted to ensure investments are staying within established baselines for cost, schedule and performance. Information is also collected to achieving program manager certification and establishing a compliant earned value management system.

**Remaining Plans**

- Strengthen contract review and administration to ensure that products and services meet contract requirements: The Department will identify and introduce acquisition best practices into the investment review process (target completion date Q1 FY 08).

**Procurement Staffing: (2005 and 2006)**

**2006 Accomplishments**

- Correcting the misalignment between Department contract spending and procurement staffing levels (target completion date Q4 FY 09).

**Remaining Plans**

- Build the DHS acquisition workforce to enhance the Department's acquisition program: DHS initiatives to resolve personnel shortages will include a centralized recruiting system for contract personnel within DHS components, an Acquisition Fellows Program that includes the recruitment of college graduates, and out-year budget requests for increased staffing levels (target completion date Q4 FY 08).

**Procurement Management & Reviews / Providing Accurate and Timely Procurement Reporting: (2005 and 2006)**

**2006 Accomplishments**

- Implementation of Strategic Sourcing Commodity Councils to review and leverage the Department's buying power (ongoing).

**Remaining Plans**

- Establish acquisition systems with well-defined missions and qualified management teams: DHS will put integrated project teams and business processes in place to facilitate sound program management and effective contract administration. This will help ensure adherence to program cost schedule and performance parameters (target completion date Q4 FY 07).

**Procurement Oversight: (2005 and 2006)****2006 Accomplishments**

- Increasing the number of appropriately certified program managers who provide oversight for key DHS investments (ongoing)

**Remaining Plans**

- Centralizing and linking procurement processes to financial systems for improved contract administration and vendor payments (target completion date Q 4 FY 08)

**FY 2006 Challenge 3: Grants Management****FY 2005 Challenge 4: Grants Management**

The report indicates that DHS needs to ensure homeland security assistance is targeted at the areas of highest risk/vulnerability. Internal coordination was lacking, did not fully address infrastructure protection priorities and thus low-scoring projects were funded. The grant evaluation process is another area of improvement opportunity, especially to ensure post-award administration tracks to DHS objectives. SLGCP is expected in FY05 to increase staffing in some areas.

**Homeland Security Assistance and Grants Award Determination: (2005)****2006 Accomplishments**

- A risk-based grant allocation process was completed in the third quarter of FY 2006. DHS risk analysis was a critical component of the process by which allocations were determined for such programs as the Homeland Security Grant Program, Transit Security Grant Program, Port Security Grant Program, and the Buffer Zone Protection Program.
- The National Infrastructure Protection Plan (NIPP) was completed. Recognizing that the vast majority of the nation's critical infrastructure is owned and operated by private industry or state, local, and tribal governments, the NIPP formalizes critical infrastructure protection roles and responsibilities and strengthens existing critical infrastructure partnerships. The NIPP focuses on seventeen critical infrastructure and key resource (CI/KR) sectors as defined in Homeland Security Presidential Directive 7 encompassing but not limited to the following areas: agriculture and food; energy; public health and healthcare; banking and finance; drinking waters and shipping; transportation systems including mass transit, aviation, maritime, ground or surface, and rail and pipeline systems; chemical; commercial facilities; government facilities; emergency services; dams; nuclear reactors, materials and waste; the defense industrial base; and national monuments and icons.
- The National Strategy for Homeland Security attaches special emphasis to preparing for catastrophic threats with "the greatest risk of mass casualties, massive property loss, and immense social disruption." To prepare for such threats, National Planning Scenarios were developed to illustrate the potential scope, magnitude, and complexity of a plausible range of major events, including terrorist attacks, major disasters, and other emergencies. The scenarios are not intended to be exhaustive or predictive; rather, they are meant to illustrate a broad range of potential terrorist attacks, major disasters, and other emergencies and their potential for creating damage.

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**Remaining Plans**

- Completion of the National Preparedness Goal in FY 2007 with measurable readiness targets that appropriately balance the potential threat and magnitude of terrorist attacks, major disasters, and other emergencies with the resources required to prevent, respond to, and recover from them.” Risk-based target levels of capability will meet that requirement. The intent is to establish capability baselines for operational missions and track resource allocation against them.
- A National Response Plan Review and Revision is targeted for completion in FY 2007. The Plan will integrate federal, state, and local lessons learned from the 2005 hurricane season in order to better prepare for catastrophic incidents nationwide. While most areas of the country are well prepared to handle standard disaster situations, DHS’ assessment of nearly 2,800 emergency operation plans from across the country determined the need for all levels of government to improve emergency operations planning for catastrophic events such as a major terrorist attack or a category-five hurricane strike. The Department has established a National Preparedness Task Force that will oversee central DHS efforts to strengthen and systematize catastrophic planning. This office will maintain expertise in the prioritization of actions and resource planning efforts among all levels of government that will be best translated into nationwide enhancements for catastrophic planning.
- Require States and urban areas to revise their Homeland Security Preparedness Strategies and submit fully updated strategies pursuant to the National Preparedness Goal in order to receive further Federal preparedness assistance (ongoing). In accordance with HSPD-8, updated strategies were originally aligned to the National Preparedness goal in early FY06.
- Broaden its risk and assessment focus to address additional risk-based priorities in FY 2007

**Grant Post-Award Administration / Monitoring Grantee Financial Accountability/ Tracking Progress to DHS Grant Objectives / Monitoring Outcomes/ Staffing - Site Visits & Project Oversight : (2005 and 2006)****2006 Accomplishments**

- The Office of Grants and Training (G&T), a component of DHS’s Preparedness Directorate, is responsible for preparing the nation against terrorism by assisting states, local and tribal jurisdictions, and regional authorities as they prevent, deter, and respond to terrorist acts. The Office published its first *Financial Management Guide*. The guide, which serves as a resource for all G&T grantees, streamlined previous requirements, eliminated unnecessary prohibitions, and provided clarification of terms in relationship to DHS/G&T activities.
- Conducted 10 financial management workshops and other training opportunities to establish a baseline skill set for G&T grantees and to assist grant recipients to strengthen accountability in the management and administration of G&T grant resources. Specifically these workshops focused on G&T’s overall award process, including Grants.gov requirements; a review of federal reporting requirements, terms and conditions; major procurement and contracting activities; and monitoring responsibilities.
- Conducted 20 on-site financial monitoring visits in tandem with G&T program staff. This level of monitoring was unprecedented and reflects the significance of G&T taking ownership of its post-award activities. It is important to note that, through its monitoring efforts, OGO is not finding waste, fraud and abuse by grantees, but rather that state financial managers are challenged to correctly record transactions funded with federal homeland security grant resources.

**Remaining Plans**

- A priority in FY 2007 is to refine internal grant management activities in the areas of training, technical assistance, and post-award monitoring. Specifically, G&T is leveraging its expertise and will co-sponsor 11 regional workshops called: G&T Grants Management Solutions. These workshops will provide grantees with more advance learning opportunities and is the direct result of grantee input and feedback.
- In FY 2007, G&T will be initiating an effort to streamline its programmatic and financial monitoring protocols and activities. The desired end result will be a unified G&T Monitoring Program that will appropriately address Inspector General concerns regarding DHS’s ability to monitor the preparedness of state and local governments, grant expenditures, and grantee adherence to the financial and programmatic terms and conditions of homeland security grants.

**FY 2006 Challenge 4: Financial Management****FY 2005 Challenge 5: Financial Management**

This section of the report focuses on the auditors' disclaimer of opinion on DHS' consolidated financial statements. It specifically calls out "significant financial funding problems" centering around ICE and USCG reporting deficiencies.

This challenge coincides with the High Risk Areas reported by the Government Accountability Office. Corrective action plans have been developed to overcome the weaknesses identified in the Inspector General's report. A summary of corrective plans for material weaknesses in internal controls are found in the Management's Discussion and Analysis (MD&A) portion of the Analysis of Internal Controls, Systems, and Legal Compliance section.

**FY 2006 Challenge 5: Information Technology Management****FY 2005 Challenge 7: Integration of Information Systems**

The report points out the major challenge of creating "a single infrastructure for effective communications and information exchange at various classification levels." The Office of the Inspector General expects that the DHS Transformation Program will encompass all support services. The Office of the Chief Information Officer, however, does not yet have authority, mission scope and staffing to strategically manage DHS component assets and programs.

**FY 2005 Challenge 8: Security of Information Technology Infrastructure**

The report reiterates directives by the Federal Information Security Management Act (FISMA) to develop and implement a Department-wide information security (IS) program. Work needs to be completed at the Component level to adhere to new Department policies, procedures and practices. Examples are to complete certification and accreditation (C&A). The Components' Plans of Action all need to be completed and the enterprise management tool data updated. More effort is needed to provide adequate security for classified systems' information security.

**Information Technology Infrastructure Transformation Program: (2005 and 2006)****2006 Accomplishments**

- Under a data consolidation effort located at Stennis Space Center in Mississippi, Data Center Services completed construction Phase I (24k sq ft) on time.
- Data Center Services completed the first transition of a component system to Stennis.

**Remaining Plans**

- Consolidate IT and technology infrastructure to unify business processes across lines of business. Consolidations include reducing seventeen data centers to two, reducing seven area networks to one, and reducing multiple email platforms to a common platform.

**Office of the Chief Information Officer (OCIO) Component Information Technology (IT) Program Management: (2005 and 2006)****2006 Accomplishments**

- DHS Strategic Plan goals have been carried forward through the Management Directorate Strategic Plan.

**Remaining Plans**

- The Office of the Chief Information Officer will develop and promulgate the IT Strategic Plan (target completion date Q2 FY07).

**Office of the Chief Information Officer Insufficient Staffing: (2005)**

**2006 Accomplishments**

- Hired 21 new employees in FY2006. The Office of the Chief Information Officer is now staffed at 70%.

**Remaining Plans**

- Increase certified project managers on all key and major investments (target completion date Q1 FY07). DHS Program Managers must be certified at a level commensurate with the responsibilities of the acquisition being managed or eligible for certification within 18 months of designation.
- Ensure that all contracts have a certified Contracting Officer's Technical Representative (COTR) (target completion date Q4 FY07).

**Federal Information Security Management Act Compliance / Department-wide program: (2005 and 2006)**

**2006 Accomplishments**

- Of the 700 systems identified 94% have been certified per the Federal Information Security Management ACT. Grades improved from an F to C-.

**Remaining Plans**

- Continue to certify remaining systems.
- Ensure that policies are updated and enforced

**FY 2006 Challenge 6: Infrastructure Protection**

**FY 2005 Challenge 9: Infrastructure Threat Assessment**

- The report indicates a precursor to assessments is the fielding of the National Assets Database and codification of the processes that populate it.

**National Assets Database (NADB) Processes and Policies: (2005)**

**2006 Accomplishments**

- NADB-Secret production system was accredited and granted an Authority to Operate by DHS and the Department of Energy.
- Implemented the Gross Consequence of Attack Tool Version I and began analysis on all viable NADB assets.
- Updated NADB-Secret production system with improved functionality and capabilities to include ICAV integration.
- Conducted 12 Expert Panels to refine data collection framework, develop criteria delineating assets of national importance, and define data elements of interest for specific asset categories.
- Initiated a data call to State Homeland Security Advisors to validate list of nationally significant assets (Tier Two) for focus of FY07 resource allocation and infrastructure protection efforts.

**Remaining Plans**

- In FY07, the NADB will be restructured into the Infrastructure Information Collection Program (IICP), which will encompass capabilities and functionalities of four previously independent projects: Automated Critical Asset Management System (ACAMS), Risk Analysis and Management for Critical Asset Protection (RAMCAP), Vulnerability Identification Self Assessment Tool (VISAT), and the NADB. The IICP will develop, implement, and standardize a model system for the automated collection of standardized infrastructure information from private sector owners/operators, local law enforcement and first responder communities, federal partners and commercial vendors to provide a coordinated strategy and methodology to collect the quantitative, asset-specific variables required to draw reliable, risk-based conclusions.
- Codify the data standards and formats for promulgation across data collection efforts to ensure consistency in information as well as leveraging existing capabilities to improve efficiencies in collection.

**NADB Data Population: (2005 and 2006)****2006 Accomplishments**

- Data Calls conducted in coordination with Sector Specific Agencies (SSA) and State and Territorial Homeland Security Advisors (HSA) to identify infrastructures of national significance/criticality.
- Developed Rapid Ingest Model concept for the automated integration of disparate data from varying sources and formats. Provides for the rapid consolidation of information into single composite records.

**Remaining Plans**

- Under the framework of the National Infrastructure Protection Plan (NIPP), continue efforts with the Sector Specific Agencies and State and Territorial Homeland Security Advisors to identify existing sources of information and means for additional collection. Data calls will be made with continued verification of collected data.

**FY 2006 Challenge 7: Border Security****FY 2005 Challenge 10: Border Security**

The report lists several challenges, beginning with development of an automated entry-exit system (United States Visitor and Immigrant Status Indicator Technology - US-VISIT) and encompassing illegal alien issues, law enforcement-supporting technologies, intelligence support, overseas operations and the immigration benefit application backlog. The inability of Customs and Border Protection (CBP) and U.S. Immigration and Customs Enforcement (ICE) to better coordinate is cited.

**United States Visitor and Immigrant Status Indicator Technology - US-VISIT System Development: (2005 and 2006)****2006 Accomplishments**

- The US-VISIT system continued biometric identification services and support of the Department of State's Consular Offices, Customs and Border Protection officers, Immigration and Customs Enforcement agents, and Citizenship and Immigration Services officers. It extended the identity verification capabilities of the US-VISIT Integrated Automated Fingerprint Identification (IDENT) system to cover the full complement of northern and southern land border ports of entry;
- prepared for the operational deployment of the electronic passport or e-Passport readers based on standards set by the International Civil Aviation Organization in response to the legislative mandate;
- continued to refine and improve the services from the Automated Biometric Identification system to stakeholder agencies; completed the deployment of the transition of fingerprint standard (10-print) and the interoperability of two biometric systems to support enforcement actions within the interior of the United States and its borders; provided information through analytical services that contributes directly to border security and immigration integrity; and engaged in information and technical assistance, both domestically and internationally to support shared and interoperable information sharing furthering the extension of the virtual border of the United States.
- At Land Border Ports extended coverage to the full complement of ports and conducted pilots of Radio Frequency Identification Device (RFID) Capabilities.
- Completed the deployment of the IDENT/IAFIS 10-print rolled capability to support enforcement actions to ICE and CBP Field Offices;

**Remaining Plans**

- US-VISIT will continue to deploy biometrics functionality that will expand its contributions to safeguarding the nation and ensuring the integrity of the immigration and border management systems. The program will focus on the mission activities in deployment of passport readers which fulfills the congressional requirement for installing scanners at ports of entry to read biometric e-Passports; evaluation of technologies for biometrically enabled radio frequency identification tokens to enable the remote validation of identity management on exit through the land borders.
- Development of a comprehensive exit strategy for the air, sea and land environment
- Continue migration to a new 10-fingerprint standard for enrollment and the interoperability of two major biometric data repositories.
- Continue education of stakeholders, both internal and external, to ensure compliance with new requirements; and respond to requests from federal departments, agencies and foreign governments for assistance in the implementation of biometric capabilities.

**Fielding Border Surveillance Technologies / SBInet Program Management: (2005 and 2006)**

**2006 Accomplishments**

- Award of the Prime Integrator Contract to Boeing.
- Establishment and staffing of the SBInet Office and establishment of a new organizational structure to ensure proper contract and program oversight.
- SBInet replaces and expands upon two previous efforts to gain control of the borders: the Integrated Surveillance Intelligence System (ISIS) and the America's Shield Initiative (ASI).

**Remaining Plans**

- Deploy SBI.net, an integrated technology system in support of the Secure Border Initiative (SBI), and expand staff and tactical infrastructure to achieve operational control (target completion date Q4 FY08).
- Continue to increase staffing levels within the SBInet office with professional program management personnel.
- Present the defined requirements to the Joint Requirements Council and the Investment Review Board.

**Providing Intelligence to Border Security Operations: (2005 and 2006)**

**2006 Accomplishments**

- Physically modified the CBP Sensitive Compartmented Information Facility to increase the number of classified computer terminals and improve analyst access to intelligence reporting.
- Increased on-site intelligence support at the National Targeting Center (NTC) to provide 24x7 coverage.
- Worked with DHS/Intelligence & Analysis counterparts to articulate detailed intelligence requirements to the intelligence community resulting in a significant increase in the quantity and relevancy of classified intelligence reporting received at CBP.
- Partnered with the Department's Office of Intelligence and Analysis to imbed four "report writers". These writers review CBP operational reporting, identify information of national intelligence value, and prepare and disseminate Homeland Information Reports (HIR). CBP information now accounts for approximately 80% of the Department's HIR reports.
- Partnered with the Department's Office of Intelligence and Analysis to deploy a Homeland Intelligence Support Team (HIST) to El Paso for about a one-year period. This team will develop best practices to serve as a model for future HIST support to specific homeland security challenges; similar to the National Intelligence Support Team (NIST) concept developed by the National Intelligence Community.

**Remaining Plans**

- Expand the CBP Sensitive Compartmented Information Facility to not only increase work space but also to create collaborative work areas for analysts and operators to work joint analytic projects.
- Pilot two field intelligence units beginning in January 2007. The goal of these pilots is to integrate and co-locate operational and intelligence specialists, fuse operational reporting with intelligence, and focus intelligence production on support to the tactical officer and field manager. Simultaneous to the field pilots, a dedicated team of analysts will provide tailored national level intelligence to the pilot units. The pilots will also develop best practices for improving the field-level intelligence requirements process.

**Immigration Benefit Application Backlog: (2005)****2006 Accomplishments**

- The U. S. Citizenship and Immigrations Service (USCIS) nearly eliminated the entire immigration benefit application backlog.

**Remaining Plans**

- To prevent future backlogs, USCIS is embarking on an enterprise-wide "Transformation Program" that will transition the agency from a fragmented, paper-based operational environment to a centralized and consolidated environment, utilizing electronic adjudication. The Program is a large-scale, complex undertaking that will form the foundation of USCIS-wide business processes and Information Technology enabled re-engineering.

**Customs and Border Protection (CBP) and U.S. Immigration and Customs Enforcement (ICE) Interoperability (2005 and 2006)****2006 Accomplishments**

- The Second Stage Review of DHS (2SR) provided the Secretary with direct ability to ensure his top operational priorities are being addressed, both by CBP and ICE, as well as the other operational components.
- Establishment of CBP and ICE Coordination Council to improve relations and coordination by bringing together the two agency heads and their key operational leaders for discussions of issues of common concern.
- Creation of CBP and ICE field leaders working group. The charter for this group includes guidance on discussing issues of common concern, such as participation in the Joint Terrorism Task Force, improving information sharing in the field, updating policy on controlled deliveries, and the CBP Officer-Enforcement program.

**Remaining Plans**

- Reach consensus on the Addendum to the November 16, 2004, CBP and ICE Joint Memorandum of Understanding, which is currently under draft by CBP Border Patrol Sector Chief's and ICE Special Agents-In-Charge. The Addendum will strengthen the working relationship, and clarify roles and responsibilities at the field level.
- Define and coordinate roles and responsibilities of CBP and ICE personnel in U.S. embassies and consulates.



**FY 2006 Challenge 8: Transportation Security****FY 2005 Challenge 11: Transportation Security**

The report specifies a continuing need for detecting explosives on the human body. The United States Coast Guard (USCG) faces a known major challenge to perform its legacy missions, implement the Maritime Transportation Security Act of 2002 (MTSA), maintain its deep water fleet and to better develop its infrastructure.

Detection of Explosives on a Human Body / Screening Performance: (2005 and 2006)

**2006 Accomplishments**

- Implementing multiple layers of security, the Transportation Security Administration (TSA) continually provided its dedicated Transportation Security Officer (TSOs) workforce with the technology, training, and operational procedures they need to effectively carryout their responsibilities for screening passengers and baggage at our Nation's airports. To strengthen the ability to detect explosives at security checkpoints, TSA enhanced explosives detection training for TSOs in both the classroom and hands-on experience in identifying X-ray images of improvised explosive device components. Additionally, TSOs are being trained and certified as Bomb Detection Officers in the screening of passengers by observational techniques. New standard operating procedures encourage TSOs to work together more than ever before to find items that may pose a security threat.

**Remaining Plans**

- TSA will continue to expand efforts toward development and deployment of emerging screening technologies to improve the automation of threat detection baggage screening. TSA has conducted several pilot programs at airports nationwide, such as the explosive trace portal and the explosive detection document scanner to facilitate enhanced TSO performance.

**USCG Deepwater Program: (2005 and 2006)****2006 Accomplishments**

- The Coast Guard has taken disciplined steps to ensure that its Deepwater acquisitions remain within cost, schedule, and performance baselines. Currently, Deepwater will complete the recapitalization of the Coast Guard's cutter fleet with a system-of-systems in 25 years at an acquisition cost of \$24 billion. This baseline discipline has been achieved by stabilizing requirements, increased cost control, and persistent Coast Guard oversight of subcontractors.
- In 2006, a new award term criteria was developed that placed greater focus on cost control through more appropriate contract type selections, the use of performance incentives within each order, and the use of award fees to support the award term criteria.
- Finally, the Coast Guard will ensure Deepwater crews are properly trained and supported on these new assets to assure peak operational performance.
- The Coast Guard has implemented increased oversight of the requirements process to ensure that contractor activities meet program goals and objectives under this unique performance-based contract structure. This has been done by the establishment of domain management teams that serve as oversight and conflict resolution entities while they enhance collaboration on issues that cut across several areas. These teams have allowed the Coast Guard to improve increased communications with the system integrator and first-tier subcontractors so that requirements are more easily discernable.
- The Coast Guard has now updated its Deepwater Measures of Success (MOS) to now emphasize improvement of output performance (cost, schedule, and deliverable performance to plan) while retaining fundamental success measures (charters, training, participation) that are required to sustain consistent and effective performance.
- The Coast Guard has codified and streamlined the review of proposed Deepwater design changes, via an updated Proposal Development Process that incorporates initial sponsor review and approval of new or changed requirements.

- The Deepwater program's Configuration Management Plan (CMP) as well as the Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) management plan were updated in 2006 to support the clear communication of requirements, as well as to capture and describe how such processes fit within overall Deepwater program responsibilities.
- The Coast Guard has outlined a best practice security build approach for layered applications starting at the operating systems level and mitigating vulnerabilities at the various layers. This layered approach implemented during the changes leading to the WPB-123 project to achieve Authority to Operate in 2006.
- The Coast Guard has used outside resources to better mitigate and resolve previous vulnerabilities through use of bodies such as the Space and Naval Warfare Systems Command (SPAWAR) that has been actively working on identifying and mitigating vulnerabilities in the Deepwater program. The use of such assistance has led to the C4ISR Integrated Support Plan being modified from a semi-annual asset software update to a quarterly update to meet vulnerability mitigation time lines.

#### **Remaining Plans**

- The Coast Guard will continue to pursue a schedule that puts its newly designed Fast Response Cutter (FRC) on a schedule to be "ready for operations" in 2010, but will also concurrently explore other options such as "off-the-shelf designs" that may allow the FRC to meet a "ready for operations" deployment in FY 2009.
- The Coast Guard has ended the conversion of eight patrol boats into new 123-foot patrol boats that did not meet post September 11, 2001 service needs. The Coast Guard intends on pursuing a Service Life Extension Program for its 110-foot cutters as a bridging strategy until the FRCs are delivered.
- The Coast Guard has adjusted its Vertical Takeoff-and-Landing Unmanned Aerial Vehicle (VUAV) program with plans to acquire one air vehicle, one ship control station, and one ground control station in FY 2007. The Coast Guard will also conduct additional tests in FY 2007 between the air vehicle and its two control stations.
- The Coast Guard's HH-65 Conversion to Multi-Mission Cutter Helicopters (MCH) has been affected by higher than anticipated cycle times which have dictated a shift in the conversion schedule that will see the completion date for all 84 operational aircraft to be re-engined in FY 2007.
- The Coast Guard is currently reviewing the curriculum for the nine courses being developed for C4ISR users and is engaged and assisting in plans to have appropriate resources for initial and follow-on training. The Coast Guard believes that most of the Deepwater training data used by the DHS Office of Inspector General appears to have been captured from WPB-123 crews, and was based on the initial training conducted. Many of the issues and comments included in this report were previously captured as part of four Coast Guard-led after training "hot wash" activities and have already been incorporated into subsequent training evolutions.

**USCG Infrastructure Development: (2005)****2006 Accomplishments**

- The Coast Guard believes that it has made steady progress over the past year in implementing Deepwater's revised production plans and that these plans, based on a comprehensive performance-gap analysis, are well-aligned with the Department of Homeland Security's strategic goals/priorities, the National Strategy for Homeland Security, and the new National Strategy for Maritime Security. The revised plan ensures that Deepwater cutters and aircraft will be equipped with the right systems and capabilities to operate successfully in all mission areas in the face of a more challenging post-9/11 threat environment.
- The Coast Guard achieved a significant milestone with the completion of step-two C4ISR upgrades aboard all 210-foot, 270-foot and 378-foot cutters, with the USCGC MORGENTHAU (WHEC-722) being the last legacy cutter of thirty-nine to be upgraded with Automatic Identification System and INMARSAT-B installations as well as upgraded Law Enforcement radio capabilities.
- The first National Security Cutter, the USCGC BERTHOLF, was launched on Sept. 29, 2006, while the keel for the second NSC, the USCGC WAESHE, was laid on Sept. 11, 2006.
- The delivery of the eighth Short Range Prosecutor (SRP) in January 2006 coincided with the delivery of the eighth and final 123-WPB in 2006.
- Lockheed Martin and aircraft maker EADS CASA rolled out the first production airframe of the HC-235A medium range surveillance maritime patrol aircraft.
- The Coast Guard's HC-130J Missionization project successfully passed its Preliminary Design Review held in Moorestown, NJ.
- The Coast Guard conducted its first successful flight of a full-scale risk reduction demonstrator of the Vertical Take-off and Landing Unmanned Aircraft Vehicle (VUAV).
- The Coast Guard designated 43 Boat Force Stations as Heavy Weather Stations and established heavy weather staffing standards to better provide an all-weather response. Similarly, the Coast Guard instituted a Surf Station staffing standard to ensure that search and rescue coxswains are better prepared to encounter severe sea and surf states, as well as increased training quotas and established a service Boat Forces Doctrine Command which has instituted fleet-wide materiel inspections to improve small boat readiness.
- The Coast Guard deployed new motor lifeboat simulators as well as seven additional boat training platforms to more efficiently provide crucial rescue training conditions, and has instituted a common and standard navigation equipment suite to reduce lost time learning unique equipment.
- The Coast Guard has expanded small boat senior enlisted command ashore training to include engineering rates in order to improve real-time crisis management decisions by a safe and effective leadership team.
- The Coast Guard deployed Rescue 21 national distress VHF marine radio systems in two additional major recreational boating areas - Mobile, Alabama, and St. Petersburg, Florida - to enhance radio and direction finding capability to receive and pinpoint the location of maritime distress calls.
- The Coast Guard completed development of a new search and rescue planning tool for Rescue Coordination Centers and Sector Command Centers – known as the Search and Rescue Optimized Planning System (SAROPS). This program has greatly improved existing maritime search planning tools by drawing upon a number of external factors that can be used to determine optimum search areas.
- The Coast Guard has developed and deployed a Common Operational Picture capability on its large afloat platforms and shore-side Command Centers. This has improved service performance by allowing operational commanders make better strategic and tactical decisions that ensure more effective resource utilization.

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**Remaining Plans**

- Changes to the Deepwater Implementation Plan in the President's fiscal year 2007 budget request will align the acquisition and projected delivery of Deepwater end-state assets so that assets, information systems and shore facilities are sequenced to provide operational capability as soon as practical. Useful segments are re-phased to complement this approach. The executable line items requested in the President's fiscal year 2007 budget request have been synchronized to provide increased operational performance compared to 2005 projections.
- Actual year-end asset performance projections in the out-years will be thoroughly evaluated during Operational Test and Evaluation to validate the projected number and capabilities of Deepwater assets to meet the Mission Need Statement (MNS) as revised in 2005
- The VUAV project plan has been adjusted, and one air vehicle, one ship control station, and one ground control station can be procured with the funds appropriated in fiscal year 2006. With the additional funding, additional testing will be conducted during fiscal year 2007 primarily between the air vehicle and the two control stations.
- Changes to HH-60 budget allocation correspond with the higher operational priority for the HH-65/MCH conversion. The existing HH-60 funding will support avionics replacement, continue the required funding for the HH-60 Service Life Extension Project (SLEP), continue funding for the HH-60 radar/Forward Looking Infra Red (FLIR) replacement, and fund HH-60 engine sustainment. Future-year funding will be used to start the HH-60 Post-9/11 Capability Upgrades, as well as complete the HH-60 avionics replacement, HH-60 SLEP, HH-60 radar/FLIR replacement, and HH-60 engine sustainment.
- The Coast Guard will continue to deploy Rescue 21 national distress VHF marine radio systems to the Pacific Northwest and Mid-Atlantic regions in 2007.
- The Coast Guard will deploy the SAROPS system nation-wide in 2007.
- The Coast Guard will install Automated Identification Systems transponders and Blue Force (friendly-force) Tracking equipment on all of its Small Boats to increase encrypted situational awareness that will enhance mission performance.
- Internet data connectivity will be installed on several Coast Guard Patrol Boats in 2007, providing global data connectivity that will contribute to enhanced mission execution by providing underway access to Enterprise Applications such as MISLE, situational awareness tools such as the Common Operations Picture (COP), and newly developed mission specific operational tools such as biometric data exchange.

**TSA Rail and Mass Transit Security: (2006)****2006 Accomplishments**

- TSA made significant progress employing a dynamic strategy to ensure the security of mass transit and passenger rail focused on regional engagement, expansion of explosives detection capabilities, and maximizing the impact of available security resources through random, visible security activities. Working with its government partners, industry owners, and operators to improve security for transportation modes other than aviation, TSA has increased its emphasis on building information sharing networks; appointed general managers for each critical transportation area; deployed Federal Security Compliance Inspectors for rail and mass transit facilities; deployed Canine Explosive Detection Teams for mass transit; and conducted security exercises and training.
- TSA led efforts to organize the Transit, Commuter, and Long distance Rail Government Coordinating Council to develop consistent and effective security strategies and programs.

**Remaining Plans**

- TSA will continue to increase its vigilance through more robust information sharing, threat detection, and enhanced coordination among Federal, State, and local government entities and private sector partners to ensure the security of the transportation systems.

**FY 2006 Challenge 9: Trade Operations and Security****FY 2005 Challenge 12: Trade Operations and Security**

The report refers to a previous one on the Automated Targeting System (ATS), which evaluates the trade supply chain and its vulnerabilities. That report indicated improvements are needed to the data to which ATS targeting rules apply, that targeting rules use examination results and to improve physical control over containers. The report notes that the ATS review is legislatively mandated.

**Customs-Trade Partnership Against Terrorism (C-TPAT)****2006 Accomplishments**

- Conducted 1,887 validations, which resulted in 3,387 total numbers of validations completed, or 55% of the certified membership--an increase over the 27% validation level in FY 2005.
- Added 65 permanent Supply Chain Security Specialists--up from the 60 on board in FY 2005.
- Established minimum-security criteria for sea, highway and rail carriers, and foreign manufacturers.
- Implemented the web communications portal for all members and applicants.

**Remaining Plans**

- Complete 2,750 validations in FY 2007.
- Hire an additional 31 permanent Supply Chain Security Specialists.
- Establish minimum-security criteria for air carriers, brokers, terminal operators, freight forwarders and consolidators.

**ATS Targeting Rule Revisions / Automated Targeting System: (2005 and 2006)****2006 Accomplishments**

- Incorporated new weight sets for targeting initiatives related to risks in the areas of pharmaceuticals, Intellectual Property Rights (IPR), and agro-terrorism.
- Coordinated with the U.S. Postal Service (USPS) to develop a pilot for an automated targeting solution for outbound mail.
- Incorporated analysis tools in support of targeting strategic and tactical post seizure analysis that identified suspect vehicles and registered owners that were or may be engaged in mala fide activity.
- Incorporated enhancements to allow Border Patrol Agents the ability to easily perform research queries in a single federated query, compiling data from multiple TECS modules as well as the ENFORCE system.

**Remaining Plans**

- Continue to work with USPS in the mail environment on the inter-operability of the different systems and the requirements for targeting rules, which have been developed, but are awaiting a resumption of the operational pilot--currently scheduled for January 2007.
- Continue to develop the Simulation and Testing Environment to provide a robust rules and system evaluation tool for ATS.

**Automated Commercial Environment (ACE)****2006 Accomplishments**

- ACE electronic truck manifest capabilities are operating at 49 land border ports, including every land border port on the Southern Border.
- More than 150 users from 16 participating government agencies are using ACE to access trade data, including more than 30 reports that draw from entry and entry summary data.
- Periodic monthly statement receipts grew to \$747.8 million, representing 30 percent of total adjusted collections. Overall, there are more than 3,500 ACE Secure Data Portal accounts, and 3,915 corporate entities are approved to pay duties and fees monthly – bringing calendar year 2006 growth in entities approved for Periodic Monthly Statement to more than 210 percent.

**Remaining Plans**

- Complete deployment of ACE truck processing capabilities by the end of May 2007.
- Implement a mandatory e-manifest policy on a port-by-port basis.
- Develop and prepare new ACE capabilities that will further strengthen screening and targeting efforts and streamline operations for CBP officers and the trade community.

**Container Security Initiative (2005)****2006 Accomplishments**

- Reached a milestone of 50 Operational CSI ports, covering 82% of U.S. bound maritime containers.
- Transitioned 12 CSI ports to permanent staffing, bringing the total number of posts with permanent personnel to 28.
- Increased the level of examinations conducted at CSI locations by 77%.
- Finalized the CSI Strategic Plan and updated the Human Capital Plan.

**Remaining Plans**

- Open 8 additional CSI ports, bringing the total number of CSI operational ports to 58 covering approximately 85% of containerized cargo destined to the United States.
- Establish remote targeting pilot project with real-time remote imaging and live video of the inspectional process.

**U.S. Coast Guard (USCG) Implementation of Maritime Transportation Security Act of 2002: (2005)****2006 Accomplishments**

The Coast Guard has:

- Partnered with TSA in their effort to establish a Transportation Worker Identification Credential (TWIC) to vet all workers associated with commercial ports. While TSA will be responsible for issuing cards to approximately 1,000,000 port and domestic vessel employees, the Coast Guard will handle enforcement of the program by requiring all persons who are deemed to need unescorted access to the secure areas of regulated vessels and facilities possess a valid TWIC.
- Has negotiated international training requirements at the International Maritime Organization (IMO) for ship, facility, and company security officers for inclusion into international IMO Conventions, and is also currently negotiating similar training requirements for other vessel personnel at the IMO.
- Worked with the U.S. Maritime Administration to develop security training standards for governmental ship and facility personnel. In addition, voluntary agreements have been instituted for these officers to undergo Coast Guard approved training programs.
- Continues to make progress in approving over 3,100 Facility and 11,000 Vessel Security Plans, over 4,700 of which have been further refined since their initial review.

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- To ensure American commercial ships comply with required MTSA security requirements, the Coast Guard has conducted over 9,000 verification examinations on over 85% of the approximately 10,000 U.S. registered commercial ships.
- Led a National Maritime Recovery Symposium to further explore ways to ensure rapid recovery of the Marine Transportation System (MTS), and continues to actively engage with DHS and industry leaders on this issue.
- Published its Area Maritime Security Plan for south-west Florida and Key West, bringing the total number of such plans to forty-five.
- Continued its joint sponsorship with TSA of the Port Security Training and Exercise Program (PortSTEP). PortSTEP is focused on the development and implementation of a port security inter-modal transportation exercise program for all port and maritime communities to align our national infrastructure protection policies and programs. In 2006, sixteen PortSTEP exercises were conducted in ports nationwide.
- Developed and implemented an Area Maritime Security Training and Exercise Program (AMSTEP) to consolidate and standardize port security exercises, establish specific performance-based measurable objectives, apply a consistent evaluation methodology to those selected objectives, and develop a sustainable multi-year exercise schedule. In 2006, this program exercised forty-two ports to support the MTSA requirement for the updating of Area Maritime Security Plans. This effort also included the development and implementation of a comprehensive Quality Assurance and Surveillance Plan (QASP) that oversees contractor provision of the technical support for AMSTEP exercises.
- Initiated a technical review of the draft Marine Terrorism Response (MTR) Plan - National Model Edition (funded by a DHS grant to the Port Authority of Seattle) to assess the possible use of that plan in supporting MTSA requirements.
- Initiated a comprehensive review of AMSP policy and planning templates, as well as a program of multiple-contingency exercises to recognize MTSA Transportation Security Incident (TSI) issues associated with other hazards. Efforts included conducting combined AMSTEP/PREP exercises in Houston, Texas and Portland, Oregon.
- Expanded its Incident Management procedures for Unified Commands to manage maritime Transportation Security Incidents to reflect the need for continued antiterrorism measures during response and recovery phases of an otherwise non-security incident.
- Co-sponsored with DHS initial stages for ten port-level Underwater Terrorism Prevention Plan (UTPP) workshops

#### **Remaining Plans**

- The TWIC Final Rule will be published in early 2007 and will establish how such cards will be issued, how they will be used, and how the Coast Guard will enforce these requirements.
- The Coast Guard will continue to conduct a total of 10 port-level Underwater Terrorism Prevention Plan (UTPP) workshops.
- In 2007, the Coast Guard will conduct thirty-two additional AMSTEP exercises, and nineteen additional PortSTEP exercises.
- The Coast Guard will continue a comprehensive review of Area Maritime Security Plan policy and planning templates and provide expanded planning guidance for facilitating the recovery of the Maritime Transportation System.
- The Coast Guard will continue its technical review of the draft Marine Terrorism Response Plan - National Model Edition to assess its possible use in supporting MTSA requirements.

## Effects of Hurricanes Katrina and Rita

Hurricanes Katrina and Rita were two of the most intense hurricanes ever recorded during the Atlantic Hurricane season. The storm had a massive impact on the physical landscape, the people and on the region's economy. Approximately 90,000 square miles were hit by the storm – roughly the size of Great Britain – directly affecting 1.5 million people. Commercial infrastructure was heavily damaged, with ports – of which one-quarter of all U.S. imports and exports pass through – closed after sustaining damage. Airports, railroads, bridges, warehouses, wharves, offshore facilities, roads, schools and hospitals were also closed after getting hit.

President George W. Bush declared major disasters for areas impacted by Hurricane Katrina in Louisiana, Mississippi, Florida, and Alabama. For Hurricane Rita, he also declared major disasters for Texas and Louisiana. In response, more than 16,000 federal personnel have been deployed to help state and local officials along the Gulf Coast recover from the damage. Some \$88 billion in federal aid has been allocated for relief, recovery and rebuilding, with another \$20 billion requested, to help victims of storm and the region recover and rebuild. For more information, visit

<http://www.dhs.gov/interweb/assetlibrary/katrina.htm>

### FEMA

During fiscal year 2006 the appropriations received by the Disaster Relief Fund include transfers to other DHS funds or other Federal agencies and rescissions. The fiscal year transfers that have been made as of September 30, 2006 include:

- A \$752.5 million transfer to the Disaster Loan Program (Pub. L. 109-88);
- A \$712 million transfer to the Small Business Administration (Pub. L. 109-174);
- A \$17.7 million rescission enacted through a 1% Government Wide Across-the-Board-Rescission (Pub. L. 109-148); and,
- A \$23.4 billion rescission of funds appropriated in Pub. L. 109-62 (Pub. L. 109-148)

During fiscal year 2006, FEMA obligated \$34.5 billion and expended \$22.5 billion of the funds appropriated in 2005 Emergency Supplemental Congress approved an addition \$6 billion for the Disaster Relief Fund (Pub. L. 109-234).

During fiscal year 2005 the appropriations received by the Disaster Relief Fund included transfers to other DHS funds. These transfers include:

- A \$100 million transfer to the Emergency Preparedness and Response, Public Health Programs; and,
- \$15 million transfer to the Departmental Management and Operations, Office of Inspector General.

In fiscal year 2005, FEMA obligated \$15.8 billion and expended \$3.5 billion of these appropriated funds.

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#### Disaster Relief Fund Statement of Budgetary Resources (in millions)

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	2006	2005
<b>Budgetary Resources</b>		
Budget Authority	\$7,770	\$68,542
Net Transfers, current year	(1,502)	(115)
Unobligated balance, brought forward	46,529	713
Recoveries of prior year obligations	2,475	548
Enacted Rescissions of Current/Prior Year Authority	(23,427)	-
<b>Total Budgetary Resources</b>	<b>\$31,845</b>	<b>\$69,688</b>

**Status of Budgetary Resources**

Obligations Incurred, Direct	\$26,342	\$23,159
Unobligated balance, available	5,503	46,358
Unobligated balance, unavailable	-	171
	<b>\$31,845</b>	<b>\$69,688</b>
Obligated balance, net Oct 1	\$17,149	\$6,385
Obligated balance, net, end of period:		
Undelivered Orders	\$15,110	\$16,255
Accounts Payable	1,837	894
Obligated balance, net, end of period	<b>\$16,947</b>	<b>\$17,149</b>
Outlays		
Disbursements	\$24,069	\$11,846

**Status of Disaster Relief Emergency Supplemental Appropriations as of September 30 (in millions):**

	2006	2005
Appropriated (on 9/5/2005)	\$10,000	\$10,000
Appropriated (on 9/12/2005)	50,000	50,000
Transferred	(1,580)	(115)
Rescission	(23,409)	-
Net appropriation	<b>\$35,011</b>	<b>\$59,885</b>
Obligated	\$34,519	\$15,845
Less: Expended	22,475	3,514
Unliquidated obligations at 9/30/06	<b>\$12,044</b>	<b>\$12,331</b>

	2006			2005		
	Obligated	Expended	Unliquidated	Obligated	Expended	Unliquidated
Katrina Florida	\$191	\$139	\$52	\$13	\$1	\$12
Katrina Louisiana	19,444	12,976	6,468	8,536	2,405	6,132
Katrina Mississippi	9,164	5,269	3,895	4,348	566	3,782
Katrina Alabama	1,123	850	273	1,401	97	1,304
Rita Texas	2,025	1,486	539	728	229	499
Rita Louisiana	1,749	1,076	673	499	173	325
States with Katrina Evacuees	823	679	144	320	43	277
Total	<b>\$34,519</b>	<b>\$22,475</b>	<b>\$12,044</b>	<b>\$15,845</b>	<b>\$3,514</b>	<b>\$12,331</b>

Alabama Katrina obligations are less than reported for fiscal year 2005 due to an allocation of cost between the Katrina and Rita disaster declarations.

## 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.

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# Appendices

Part V



## APPENDIX A – REFERENCES AND RESOURCES

This report satisfies the reporting requirements of the following laws:

- Department of Homeland Security Financial Accountability Act of 2004  
[frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108\\_cong\\_bills&docid=f:h4259enr.txt.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108_cong_bills&docid=f:h4259enr.txt.pdf)
- Chief Financial Officers Act of 1990  
<http://www.gao.gov/special.pubs/af12194.pdf>
- Federal Managers' Financial Integrity Act of 1982  
[www.whitehouse.gov/omb/financial/fmfia1982.html](http://www.whitehouse.gov/omb/financial/fmfia1982.html)
- Government Performance and Results Act of 1993  
[www.whitehouse.gov/omb/mgmt-gpra/gplaw2m.html](http://www.whitehouse.gov/omb/mgmt-gpra/gplaw2m.html)
- Government Management Reform Act of 1994  
[www.au.af.mil/au/awc/awcgate/sp/s2170.htm](http://www.au.af.mil/au/awc/awcgate/sp/s2170.htm)
- Clinger-Cohen Act of 1996  
[www.tricare.osd.mil/jmis/download/PublicLaw104\\_106ClingerCohenActof1996.pdf](http://www.tricare.osd.mil/jmis/download/PublicLaw104_106ClingerCohenActof1996.pdf)
- Reports Consolidation Act of 2000  
[http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=106\\_cong\\_bills&docid=f:s2712es.txt.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=106_cong_bills&docid=f:s2712es.txt.pdf)
- Accountability of Tax Dollars Act of 2002  
[frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=107\\_cong\\_public\\_laws&docid=f:publ289.107.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=107_cong_public_laws&docid=f:publ289.107.pdf)

This report was compiled and submitted in accordance with:

- Accountability of Tax Dollars Act of 2002 Office of Management and Budget (OMB) Circular A–11 *Preparation, Submission, and Execution of the Budget*  
[www.whitehouse.gov/omb/circulars/a11/current\\_year/a11\\_toc.html](http://www.whitehouse.gov/omb/circulars/a11/current_year/a11_toc.html)
- OMB Circular A–136 *Financial Reporting Requirements*.  
[www.whitehouse.gov/omb/circulars/a136/a136\\_revised\\_2006.pdf](http://www.whitehouse.gov/omb/circulars/a136/a136_revised_2006.pdf)

## APPENDIX B- LIST OF DEPARTMENT WEBSITES

The Department's website is located at [www.dhs.gov](http://www.dhs.gov). Information on the following Directorates and Components can be found at the DHS website.

- U.S. 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)
- Federal Emergency Management Agency – [www.fema.gov](http://www.fema.gov)
- 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)

## APPENDIX C – GLOSSARY OF ACRONYMS AND ABBREVIATIONS

2SR – Second Stage Review  
 AAR – 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  
 ATS – Targeting System  
 B&SA – Bureau & Statistical Agent  
 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  
 CDL – Community Disaster Loans  
 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  
 COBRA – Consolidated Omnibus Reconciliation Act  
 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  
 DADLP – Disaster Assistance Direct Loan Program

DC – District of Columbia  
DDOS – Distributed Denial of Service  
DETER – Defense Technology Experimental Research  
DHS – Department of Homeland Security  
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  
DOS – Department of State  
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  
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  
FAM – Federal Air Marshal  
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  
FEHB – Federal Employee Health Benefit Program  
FEGLI – Federal Employees Group Life Insurance Program  
FEMA – Federal Emergency Management Agency  
FERS – Federal Employees Retirement System  
FFV – Foreign Fishing Vessel  
FI – Financial Investigations  
FIRA – Flood Insurance Reform Act  
FLETA – Federal Law Enforcement Training Accreditation  
FLETC – Federal Law Enforcement Training Center  
FMA – Flood Mitigation Assistance  
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  
G&T – Grants & Training  
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  
IEFA – Immigration Examination Fee Account  
IHP – Individual Households Program  
INA – Immigration and Nationality Act  
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  
NCHS – National Center for Health Statistics  
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  
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  
PRE – Preparedness Directorate  
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  
RMD – Risk Management Division  
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 Changes in 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  
STEA – Screener Training Exercises and Assessments  
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 Aerial Vehicle  
U.S. – United States  
U.S.C. – United States Code  
USCG – United States Coast Guard  
USCIS – U.S. Citizenship and Immigration Services  
USFA – U.S. Fire Administration  
USR – Urban Search and Rescue  
UST – Underground Storage Tanks  
USSS – United States Secret Service  
US-VISIT – United States Visitor and Immigrant Status Indicator Technology  
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



# Homeland Security

Additional copies of the Department of Homeland Security's Performance and Accountability Report for Fiscal Year 2006 are available by writing to:

U.S. Department of Homeland Security  
Office of the Chief Financial Officer  
Program Analysis and Evaluation  
Washington, DC 20528

Or by phone, fax or email at:  
(202) 447-5145 or 5146 (Phone)  
(202) 447-5144 (Fax)  
PAR@dhs.gov

Electronic versions may be accessed and downloaded via the DHS public website at <http://www.dhs.gov/xabout>



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