Homeland Security

Agency Financial Report

Fiscal Year 2016

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

We are DHS

About this Report

The *Department of Homeland Security* (DHS) *Agency Financial Report for Fiscal Year* (FY*) 2016* presents the Department's detailed financial information relative to our mission and the stewardship of those resources entrusted to us. It also highlights the Department's priorities, strengths, and challenges in implementing programs to enhance the safety and security of our Nation.

For FY 2016, the Department is using the alternative approach—as identified in the Office of Management and Budget's Circular A-136—to produce its Performance and Accountability Reports, which consists of the following three reports:

- ***DHS Agency Financial Report***: Delivery date: November 15, 2016.
- ***DHS Annual Performance Report***: Delivery date: The *DHS Annual Performance Report* is submitted with the Department's Congressional Budget Justification.
- ***DHS Summary of Performance and Financial Information:*** Delivery date: February 15, 2017.

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

For more information, contact:

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Office of Financial Management
245 Murray Lane, SW
Mailstop 200
Washington, DC 20528

Information may also be requested by sending an email to par@hq.dhs.gov.

Certificate of Excellence in Accountability Reporting

In May 2016, DHS received its third consecutive Certificate of Excellence in Accountability Reporting (CEAR) from the Association of Government Accountants (AGA) for its FY 2015 Agency Financial Report. The CEAR Program was established by the AGA, in conjunction with the Chief Financial Officers Council and the Office of Management and Budget, to further performance and accountability reporting.

Homeland Security

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Message from the Secretary

November 14, 2016

I am pleased to present the Department of Homeland Security's (DHS) Agency Financial Report for Fiscal Year (FY) 2016. This report provides an assessment of the Department's detailed financial information and demonstrates how the resources entrusted to us were used to support our primary mission areas. This report also outlines our major goals and priorities. It illustrates our efforts to expand employee engagement and our commitment to strengthening Departmental Unity of Effort through improved processes and structure.

The new DHS mission statement we established this year serves as a capstone to our Unity of Effort initiative—"With honor and integrity, we will safeguard the American people, our homeland, and our values." This statement reflects the views and beliefs of our employees and was inspired by their comments.

As we work to fulfill this mission we must stay true to the core values of our nation including personal privacy, the freedom to travel, and the celebration of diversity among all our citizens no matter their race, gender, or nationality. While safeguarding our people and our homeland, we cannot isolate ourselves from the rest of the world. We must embrace and celebrate our differences while providing a secure and stable nation for all people.

An efficient, collaborative management system is key to the homeland security mission. Through the Unity of Effort initiative, we continually ensure that our programming, budgeting, and expenditures across the Department are mission-driven, cohesive, and transparent. We work together, across Components, to evaluate how our spending and programs can make the greatest impact toward achieving our mission.

We have strengthened our approach to the budget by focusing Department-wide on our mission needs. With the support of Congress, in FY 2017 we will fully implement a Common Appropriation Structure, which provides a simple, consistent structure across Components.

We have transformed our approach to acquisition by establishing the DHS-wide Joint Requirements Council to evaluate our Component's needs on the front-end of an acquisition. Additionally, all DHS major acquisition programs have approved life cycle cost estimates to help improve the Department's ability to deliver needed capability on time and on budget to secure our Nation.

In addition to strengthening our business processes, we have focused on improving employee morale over the past two years. It takes time to turn a workforce of more than 240,000 people in a different direction. I am pleased that after six straight years of decline, employee engagement at DHS went up three whole percentage points this year. We will continue to work to improve our engagement with employees and make DHS a workplace of choice.

Through our improved interaction and employee outreach, we are making advances toward operating together as a Department. As we continue to grow and mature as a Department, we remain keenly focused on the Department's five key mission areas: preventing terrorism and enhancing security; securing and managing our borders; enforcing and administering our immigration laws; safeguarding and securing cyberspace; and strengthening national preparedness and resilience.

Prevent Terrorism and Enhance Security

Preventing terrorist attacks on the homeland is the cornerstone of the Department's mission. Events over the past year in Brussels, Paris, San Bernardino, Orlando, and elsewhere are tragic reminders of the threats we face each day in our country and across the world. DHS's first priority remains protecting our nation from terrorist attacks. We are in a new phase of the global terrorist threat, requiring a new type of response. We have moved from a world of terrorist-directed attacks to a world of terrorist-inspired or enabled attacks where the terrorist may have never come face to face with a single member of a terrorist organization and self-radicalizes, inspired by something on the internet.

To combat these threats, our government and our coalition partners continue to take the fight militarily to terrorist organizations overseas. We have intensified our work with state and local law enforcement to share intelligence and information with Joint Terrorism Task Forces, fusion centers, local police chiefs, and sheriffs. Given the nature of the evolving terrorist threat, building bridges to diverse communities, particularly American Muslim communities, is also now a homeland security imperative.

Secure and Manage Our Borders

The Department has committed historic levels of front line personnel, technology, and infrastructure to border security in order to reduce the flow of illegal immigrants and illicit contraband while fostering legal trade and travel. Over the last 15 years, the number of apprehensions by the Border Patrol on our southwest border—an indicator of total attempts to illegally cross the border—has declined significantly. In FY 2016, total apprehensions by the Border Patrol on our Southwest Border, between ports of entry, numbered 408,870. This represents an increase over FY 2015, but was lower than FY 2014 and FY 2013, and a fraction of the number of apprehensions routinely observed from the 1980s through 2008.

Enforce and Administer Our Immigration Laws

Immigration is essential to our identity as a nation of immigrants. We continue to more sharply focus our enforcement resources on the identification and removal of public safety threats, criminal aliens, and other high-priority individuals. Our overarching goal is to enforce our immigration laws in a way that promotes public safety, national security, and border security.

Safeguard and Secure Cyberspace

Along with counterterrorism, cybersecurity remains a cornerstone of our Department's mission. Cyber threats are increasing in their frequency, scale, sophistication, and severity. This impacts everyone, both in the public and private sectors, across the country, and around the globe. Following the attacks on the Office of Personnel Management system last year, the Department launched an aggressive timetable for improving federal civilian cybersecurity through two principal systems. The first, EINSTEIN 3A, automatically blocks potential cyber intrusions on our federal systems and has already blocked over a million potential cyber threats. The second, Continuous Diagnostics and Mitigation (CDM), helps federal agencies detect and prioritize vulnerabilities inside their networks. In FY 2016, the Department provided CDM to 100 percent of the federal civilian government. Work must continue to streamline and strengthen existing functions within the Department to ensure we are prepared for the growing cyber threat and the potential for large scale attack.

Strengthen National Preparedness and Resilience

No matter the time of day or location on a map, a disaster can strike and overwhelm any of our Nation's communities. Flooding in Louisiana just a few months ago devastated the area. Working with other federal agencies, DHS opened 26 Disaster Recovery Centers, provided 63,000 families with housing assistance, and conducted over 114,000 home inspections. The Department is building a ready and resilient Nation by bolstering our preparedness and disaster response information sharing and collaboration.

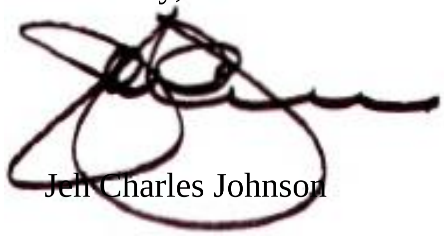
Management Assurances and Performance Measurement

In FY 2016, the Department obtained its fourth consecutive unmodified audit opinion on all its financial statements. Because of robust policies and strong cooperation among management and all Components, I am able to provide reasonable assurance that the Department's financial information is complete and reliable. In addition, the Department continues to address internal control weaknesses, moving closer to our goal of achieving an unmodified internal control audit opinion. The Department is able to provide reasonable assurance that its internal controls over financial reporting are effective, with the exception of the three remaining material weaknesses identified in my Assurance Statement.

DHS remains committed to improving performance measurement and accountability, and I am able to provide reasonable assurance, based on our internal controls evaluations, that the performance information reported for the Department in our performance and accountability reports are complete and reliable, except those noted in our Annual Performance Report. The Department's performance and accountability reports for this and previous years are available on our public website: http://www.dhs.gov/performance-accountability.

The Department's work to develop and implement the Common Appropriations Structure and our efforts to engage and involve staff at all levels show our continued commitment to improvement. We will continue to meet our challenges head-on, with a sense of urgency and purpose that the American people expect and that our mission requires. Thank you for your collaboration.

Sincerely,



Jeh Charles Johnson

Management's Discussion and Analysis

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

The ***Overview*** section describes the Department's organization, its missions and goals, and provides an overview of our front-line Components.

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

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

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

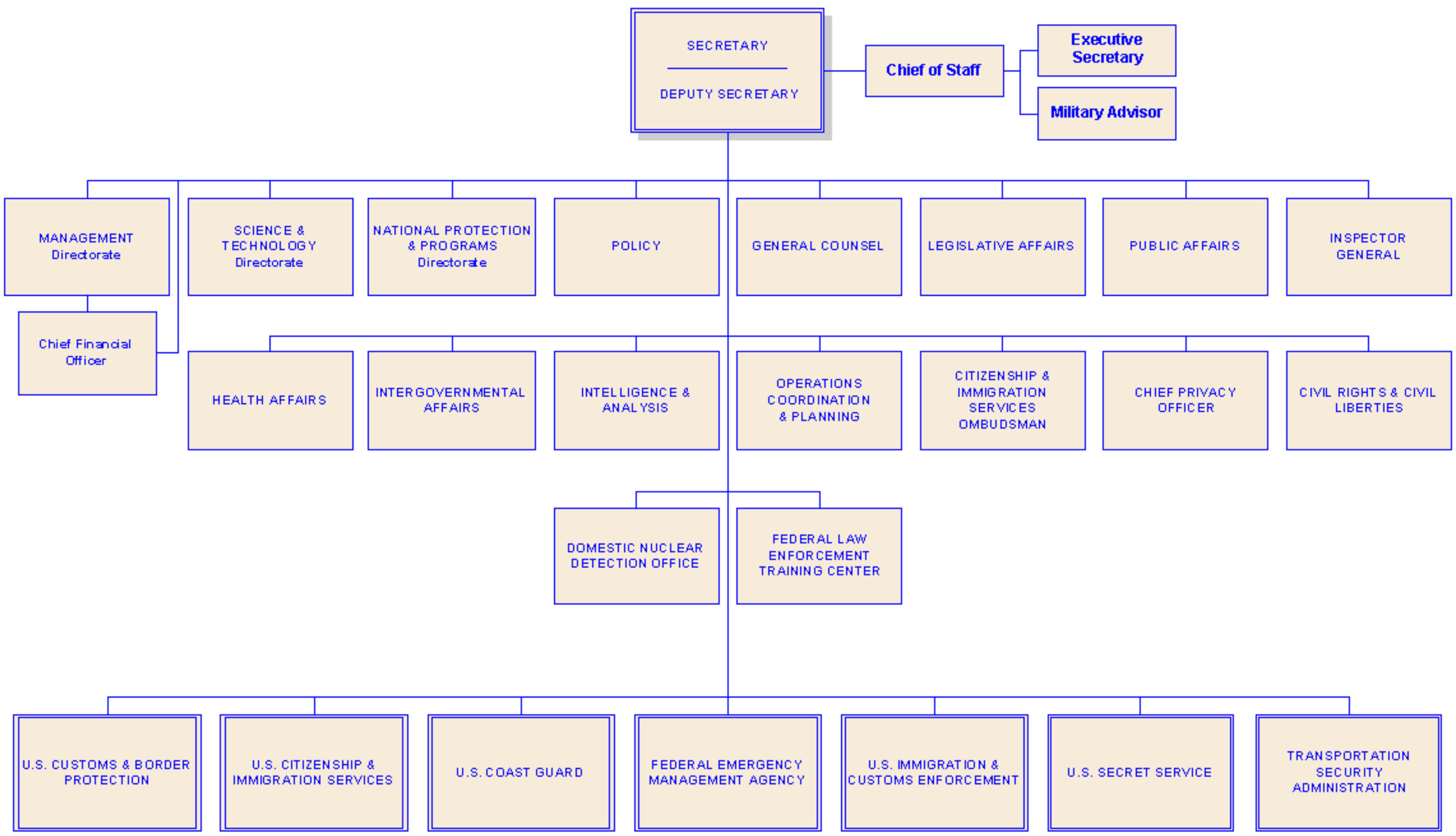
Overview

The Department of Homeland Security (DHS) has a fundamental duty—to secure the Nation from the many threats we face. This requires the dedication of more than 240,000 employees in jobs that range from aviation and border security to emergency response, from cybersecurity analyst to chemical facility inspector. Our duties are wide-ranging, but our goal is clear—keep America safe.

Our Organization

DHS's operational Components lead the Department's front-line activities to protect our Nation. The enabling DHS Components provide resources, analysis, equipment, research, policy development, and support to ensure the front-line organizations have the tools and resources to accomplish the DHS mission. For more information about the Department's structure, visit our website at http://www.dhs.gov/organization.

DHS Organizational Chart



Our Components

The following is a description of the major Components that make up the Department of Homeland Security. Components listed below are those for which Congress appropriates funds through the budget process, whereas the Components in the financial reporting section are those tracked in the Treasury Information Executive Repository system presented in Note 1.A in the Financial Section. Click on the Component name for more information on their website. Operational Components are presented in the order they appear on the bottom of the organizational chart. The enabling Components are listed in alphabetical order.

Operational Components

U.S. Customs and Border Protection (CBP) is one of the Department of Homeland Security's largest and most complex Components, with a priority mission of keeping terrorists and their weapons out of the U.S. It also has a responsibility for securing and facilitating trade and travel while enforcing hundreds of U.S. regulations, including immigration and drug laws.

U.S. Citizenship and Immigration Services (USCIS) secures America's promise as a nation of immigrants by providing accurate and useful information to our customers, granting immigration and citizenship benefits, promoting an awareness and understanding of citizenship, and ensuring the integrity of our immigration system.

U.S. Coast Guard (USCG) is one of the five armed forces of the United States and the only military organization within the Department of Homeland Security. The Coast Guard protects the maritime economy and the environment, defends our maritime borders, and saves those in peril.

Federal Emergency Management Agency (FEMA) supports our citizens and first responders to ensure that as a nation we work together to build, sustain, and improve our capability to prepare for, protect against, respond to, recover from, and mitigate all hazards.

U.S. Immigration and Customs Enforcement (ICE) promotes homeland security and public safety through the criminal and civil enforcement of federal laws governing border control, customs, trade, and immigration.

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

Transportation Security Administration (TSA) protects the Nation's transportation systems to ensure freedom of movement for people and commerce.

Enabling Components

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

Departmental Management and Operations (DMO) provides support to the Secretary and Deputy Secretary in the overall leadership, direction, and management to the Department and all of its Components, ensuring the delivery of effective and efficient business and management services. DMO is responsible for budget, appropriations, expenditure of funds, accounting and finance; procurement; human resources and personnel; information technology systems; facilities, property, equipment, and other material resources; and identification and tracking of performance measurements relating to the responsibilities of the Department.

Domestic Nuclear Detection Office (DNDO) works to prevent nuclear terrorism by continuously improving capabilities to deter, detect, respond to, and attribute attacks, in coordination with domestic and international partners.

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

National Protection and Programs Directorate (NPPD) advances the Department's risk-reduction mission. Reducing risk requires an integrated approach that encompasses both physical and virtual threats and their associated human elements.

Office of Health Affairs (OHA) provides medical, public health, and scientific expertise in support of the DHS mission to prepare for, respond to, and recover from all threats.

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

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

Our Strategic Framework

Performance and financial information in this report is organized around the missions and goals identified in the Department's FY 2014-2018 Strategic Plan. The FY 2014-2018 Strategic Plan continues the Department's efforts to prioritize front-line operations while maximizing effectiveness and efficiency. The missions, goals, and our mature and strengthen goals of the Department are provided below.

Mission 1: Prevent Terrorism and Enhance Security

- Goal 1.1: Prevent Terrorist Attacks
- Goal 1.2: Prevent and Protect Against the Unauthorized Acquisition or Use of Chemical, Biological, Radiological, and Nuclear Materials and Capabilities
- Goal 1.3: Reduce Risk to the Nation's Critical Infrastructure, Key Leadership, and Events

Mission 2: Secure and Manage Our Borders

- Goal 2.1: Secure U.S. Air, Land, and Sea Borders and Approaches
- Goal 2.2: Safeguard and Expedite Lawful Trade and Travel
- Goal 2.3: Disrupt and Dismantle Transnational Criminal Organizations and Other Illicit Actors

Mission 3: Enforce and Administer Our Immigration Laws

- Goal 3.1: Strengthen and Effectively Administer the Immigration System
- Goal 3.2: Prevent Unlawful Immigration

Mission 4: Safeguard and Secure Cyberspace

- Goal 4.1: Strengthen the Security and Resilience of Critical Infrastructure Against Cyber Attacks and other Hazards
- Goal 4.2: Secure the Federal Civilian Government Information Technology Enterprise
- Goal 4.3: Advance Cyber Law Enforcement, Incident Response, and Reporting Capabilities
- Goal 4.4: Strengthen the Cyber Ecosystem

Mission 5: Strengthen National Preparedness and Resilience

- Goal 5.1: Enhance National Preparedness
- Goal 5.2: Mitigate Hazards and Vulnerabilities
- Goal 5.3: Ensure Effective Emergency Response
- Goal 5.4: Enable Rapid Recovery

Mature and Strengthen Homeland Security

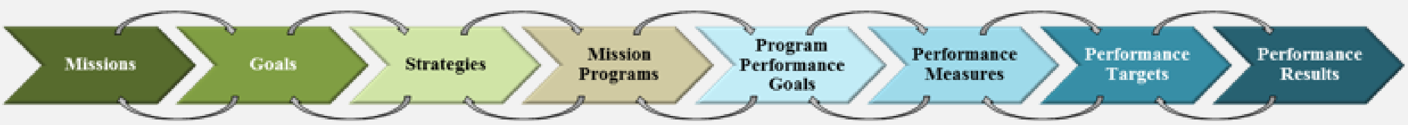
- Goal 1: Integrate Intelligence, Information Sharing, and Operations
- Goal 2: Enhance Partnerships and Outreach
- Goal 3: Strengthen the DHS International Affairs Enterprise in Support of Homeland Security Missions
- Goal 4: Conduct Homeland Security Research and Development
- Goal 5: Ensure Readiness of Frontline Operators and First Responders
- Goal 6: Strengthen Service Delivery and Manage DHS Resources

Performance Overview

The Performance Overview provides a summary of each homeland security mission, selected accomplishments, key performance measures, and forward looking initiatives to strengthen the Department's efforts in achieving a safer and more secure Nation. A complete list of all performance measures and results will be published in the DHS FY 2016-2018 Annual Performance Report with the FY 2018 Congressional Budget and can be accessed at: http://www.dhs.gov/performance-accountability.

Performance Management in DHS

The Department created a robust performance framework that drives performance management and enables the implementation of performance initiatives. This approach also facilitates the reporting of results within the Department for a comprehensive set of measures aligned to the missions and goals of the Department. The figure below shows the linkage between our strategic plan, the Department's mission programs, and the measures we use to gauge performance. This approach to measurement ensures that the Department can assess the achievement of our missions as identified in our strategic framework. In the following section, we describe our performance management framework and how this gets implemented. A subset of results is made available in this section of the Agency Financial Report. For the full set of measures the Department uses to gauge the delivery of results aligned to our strategy, see the DHS Annual Performance Report.



Missions:	Describes at the highest level what the Department aims to achieve.
Goals:	A goal is a statement of aim or purpose included in the Department's Strategic Plan to achieve the mission. Goals are the overarching structure used to group multiple strategies and associated program performance goals to influence achievement of the Department's missions.
Strategies:	A strategy is a statement in the Department's Strategic Plan that describes a targeted area of action to support achievement of the related Department goal.
Mission Programs:	Organized set of activities acting together to accomplish specific high-level outcomes external to an organization. Mission programs are the operational processes, skills, technology, human capital, and other resources leveraged to achieve program performance goals and the Department's missions and goals.
Program Performance Goals:	This is an outcome-oriented statement for each mission program that describes the value the program intends to deliver to its beneficiaries and the American public. Program performance goals are understood in terms of their associated performance measures and performance targets, which express the tangible objective against which actual achievement can be compared.
Performance Measures:	This is an indicator, statistic, or metric used to gauge program performance and assess progress in meeting the program performance goal, and in turn the missions, goals, and strategies of the Department.
Performance Targets:	A target is the projected level of performance for each performance measure during a fiscal year. A target is a measureable characteristic that communicates at what level a program aspires to perform.
Performance Results:	A result is the actual level of performance for each performance measure achieved during a fiscal year. Results are compared to targets to determine if planned performance was achieved.

Mission 1: Prevent Terrorism and Enhance Security

Preventing a terrorist attack in the United States remains the cornerstone of homeland security. Our vision is a secure and resilient Nation that effectively prevents terrorism in ways that preserve our freedom and prosperity. Achieving this vision requires us to focus on the core goals of preventing terrorist attacks, preventing and protecting against the unauthorized acquisition or use of chemical, biological, radiological, and nuclear materials and capabilities; and reducing risk to the Nation's most critical infrastructure, key leaders, and events.

Our goals for this mission are:

- Goal 1.1: Prevent Terrorist Attacks;
- Goal 1.2: Prevent and Protect Against the Unauthorized Acquisition or Use of Chemical, Biological, Radiological, and Nuclear Materials and Capabilities; and
- Goal 1.3: Reduce Risk to the Nation's Critical Infrastructure, Key Leaders, and Events.

Demonstrating Innovative Solutions

In FY 2016, the Transportation Security Administration (TSA) established the Innovation Task Force (ITF) to conduct field demonstrations of emerging capabilities. Through data and information sharing, partnering with stakeholders across the aviation sector, and fostering a platform for innovation, ITF aims to promote rapid development of new solutions and to refine requirements and processes. The goal of the ITF is to enhance TSA's ability to respond to an evolving terrorist threat and a dynamic screening environment.

The ITF established Hartsfield-Jackson Atlanta International Airport (ATL) as an innovation site and demonstrated Automated Screening Lanes (ASLs) in partnership with Delta Air Lines. The ASLs demonstration (which included automated bin returns, multiple divestiture stations, and enhanced bin tracking and data capabilities) was recognized by partner airlines, vendors, and travelers for its expediency, and for reducing wait times and improving the passenger experience. Senator Tom Carper commented, "This partnership between Delta and TSA's Innovation Task Force in Atlanta could—and should—serve as a model for other airports across the country as one of many smart solutions that could make flights more secure while also making the screening process less of a burden for passengers, airlines, and airports."

Success at ATL has encouraged expansion of ITF to target airports around the country for additional demonstrations and next-generation solutions. As TSA Administrator Peter Neffenger recognized, "[ITF] already succeeded in that they are thinking differently. It's an example of how we're changing the way we think as a system."

The following highlighted measures gauge our efforts to prevent terrorism and enhance security. Explanations of results, trend analysis, and corrective actions are provided for each measure as appropriate.

Percent of international air enplanements vetted against the terrorist watch list through Secure Flight (TSA)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
100%	100%	100%	100%	100%	100%

TSA has maintained a 100 percent vetting of international travelers against the terrorist watch list for the past five years. The Secure Flight program is a risk-based passenger prescreening system that enhances security by assessing passengers' potential risk before they arrive at the airport by matching their names against trusted traveler lists and watchlists. This serves to prevent individuals on the No Fly List from boarding an aircraft and to identify individuals for enhanced screening. After matching passenger information against government watch lists, Secure Flight transmits the matching results back to airlines before they can issue passenger boarding passes.

Percent of daily passengers receiving expedited physical screening based on assessed low risk (TSA)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
---	---	---	---	50%	46.3%

This measure was introduced to gauge the percent of daily passengers who received expedited physical screening because they meet low risk protocols or have been otherwise assessed at the checkpoint as low-risk. TSA Pre✓® incorporates modified screening protocols for eligible participants who have enrolled in the TSA Pre✓® program, as well as known crew members, active duty service members, and other trusted populations. In an effort to strengthen aviation security while enhancing the passenger experience, TSA is focusing on risk-based, intelligence-driven security procedures and enhancing its use of technology in order to focus its resources on the unknown traveler. In FY 2016, TSA achieved 46.3 percent, missing expectations for the first year of this measure. At the start of the fiscal year, TSA removed certain groups receiving expedited screening based on a reassessment of the risk analysis. This safety decision impacted the program's ability to reach its target. TSA is currently investigating ways to continue to grow the TSA Pre✓® enrolled population.

Percent of containerized cargo conveyances that pass through radiation portal monitors at sea ports of entry (DNDO)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
FOUO	FOUO	FOUO	FOUO	FOUO	FOUO

This measure gauges the amount of containerized cargo scanned by radiation portal monitors deployed to the Nation's sea ports of entry. Radiation portal monitors are acquired, installed, and maintained by DNDO and are used by CBP in day-to-day operations to scan incoming cargo to detect and identify dangerous nuclear and radiological sources. Although the actual results are For

Official Use Only (FOUO), this measure continues to perform at a high level, attaining its target for this fiscal year and the previous four years.

Percent of performance standards implemented by the highest risk chemical facilities and verified by DHS (NPPD)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
---	46%	78%	93%	95%	97%

The Chemical Facility Anti-Terrorism Standards (CFATS) program is an important part of our Nation's counterterrorism efforts as the Department works with our industry stakeholders to keep dangerous chemicals out of the hands of those who wish to do us harm. Since the CFATS program was created, the Department has engaged with industry to identify and regulate high-risk chemical facilities to ensure they have security measures in place to reduce the risks associated with the possession of chemicals of interest. This measure reports the percent of risk based performance standards that are approved and implemented within site security plans or alternative security programs for Tier 1 and Tier 2 facilities that are compliant with the CFATS regulation. By the end of FY 2016, DHS delivered guidance and requirements to the highest risk chemical facilities, prompting these owners and operators to include 7,591 specific security improvements in their security plans in order to satisfy the risk-based performance standards, meeting the target and improving over the previous year.

Security compliance rate for high-risk maritime facilities (USCG)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
98.7%	99.3%	99.3%	99.6%	100%	97.6%

The Maritime Transportation Security Act of 2002 (MTSA) requires vessels and port facilities to conduct vulnerability assessments and develop security plans that may include passenger, vehicle and baggage screening procedures; security patrols; establishing restricted areas; personnel identification procedures; access control measures; and/or installation of surveillance equipment. MTSA facilities are a high risk subset of the national waterfront facility population given the nature of their activities and/or the products they handle which pose a greater risk for significant loss of life, environmental damage, or economic disruption if attacked. The USCG completes one scheduled and one unscheduled inspection on each facility annually and had a 97.6 percent compliance rate in FY 2016, slightly down from previous years. Facilities which have problems are given a notice of violation and/or civil penalty.

Percent of protectees that arrive and depart safely (USSS)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
---	---	---	100%	100%	100%

This measure achieved 100 percent in FY 2016 and it is expected USSS will continue this level of excellence in the future as they have set their targets to always be 100 percent for their protective mission. This measure was introduced in FY 2015 to better assess USSS protection activities by gauging the percent of travel stops where USSS protectees arrive and depart safely.

Percent of National Special Security Events that were successfully completed (USSS)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
100%	100%	100%	100%	100%	100%

This measure is a percent of the total number of National Special Security Events (NSSE) completed in a Fiscal Year where once the event commenced, a security incident(s) inside a USSS protected venue did not preclude the event's agenda from proceeding to its scheduled conclusion. These events require a tremendous amount of preplanning and coordination with numerous federal, state, and local jurisdictions. USSS has attained 100 percent for the past five years.

2016 Republican and Democratic National Conventions

The 2016 Republican National Convention (RNC) and Democratic National Convention (DNC) were the 53rd and 54th events of national significance (since September 1998) to be designated NSSEs. The USSS was the lead federal agency for operational security planning and implementation for both the 2016 RNC and DNC. The USSS initiated operational security planning for these events nearly 12 months prior to the conventions, and the successful completion of these NSSEs was the result of the coordinated efforts of a myriad of federal, state and local agencies, including other Components of DHS.

USSS RNC and DNC event coordinators invited major stakeholders to be members of an executive steering committee in each city to oversee the development of a custom operational security plan for each convention. In addition, the event coordinators recruited subject matter experts, representing more than 50 law enforcement, public safety, and military entities, to be members of nearly two-dozen subcommittees. The subcommittees were responsible for developing various aspects of these event security plans, from airspace security and crowd management to transportation security and tactical coordination, from intelligence/counterterrorism and critical infrastructure protection to explosive device response and interagency communication. Extensive and realistic multi-agency tabletop exercises, joint tactical and other practical exercises took place weeks prior to the conventions to ensure that operational security plans would work as intended. All of this preparation led to the successful completion of these vital NSSEs.

<u>Looking Forward</u>

The United States has made significant progress in securing the Nation from terrorism. Nevertheless, the evolving and continuing threat from terrorists remains, as witnessed by events around the globe. The Department and its many partners, which includes international and federal, state, local, tribal and territorial governments, public and private sectors, and communities across the country, have strengthened the homeland security enterprise to better mitigate and defend against dynamic threats. Below are a few areas that advance our efforts to achieve the Department's mission of preventing terrorism and enhancing security.

TSA Embracing Covert Testing to Identify Gaps

DHS continues to heed lessons learned from the Office of Inspector General covert testing in the summer of 2015, and remains dedicated to security effectiveness during an unprecedentedly busy travel year. Numerous plans and programs are helping to alleviate long lines while ensuring the safety of the flying public. Future plans focus on the professionalization of Transportation Security Officers (TSOs) which includes transitioning more of the front line workforce from part-time to full-time, increasing the number of TSOs to reduce wait times and allow for a surge capability, and providing standardized professional training and development. TSA will also leverage and expand their canine teams to provide more security throughout the transportation sector, including passenger screening. The Department will also be coordinating on next generation technology for passenger and baggage screening via Integrated Product Teams (IPTs) and the Innovation Task Force by conducting field demonstrations of emerging capabilities. IPTs will closely coordinate front line operations and emerging threats to ensure TSA has cutting edge technology to reduce wait times while effectively identifying threats.

Expanding Intelligence and Information Sharing to Increase Domain Awareness

The Department continues to integrate the DHS Intelligence Enterprise (IE) and increase the flow of intelligence and information across the IE, through the DHS Data Framework, and with its federal, state, local, tribal, and territorial partners to support the Department's diverse missions and detect threats to the homeland. The IE is developing comprehensive training programs and analytic tools, which will enhance the Department's intelligence picture and collection capabilities. To support the Department's screening and vetting missions, the IE is increasing access to open source social media platforms to compare unclassified data with classified data and leveraging all available sources to identify bad actors. Moving forward, the Department and its Components are developing robust counterintelligence programs to counter threats from foreign intelligence entities and insider threats. All of this should empower the Department to leverage risk-based approaches and provide an efficient and effective way to prevent terrorist attacks.

Chemical, Biological, Radiological, and Nuclear (CBRN) Mitigation Efforts

DHS engages with international, federal, state, local, territorial, tribal, and private sector partners to counter CBRN threats. Efforts include working on sector-specific facility security planning, training, exercises, guidance documents, and developing technology solutions collaboratively to increase capabilities to mitigate CBRN threats. DHS efforts are coordinated at multiple levels—within DHS and with our many partners and stakeholder—to ensure effective solutions are applied to mitigate risk, improve current capabilities, and leverage new technologies and tools to ensure the safety and security of the United States. Moving forward, this work will then be integrated with the planning for the international Global Nuclear Detection Architecture to include: integrating interagency efforts to develop and acquire radiological and nuclear detection technologies; evaluating detector performance; ensuring effective response to detection alarms; and conducting transformational research and development for radiological and nuclear detection and forensics technologies.

Protecting the Nation's Critical Infrastructure, Key Leadership, and Events

USSS continues to make progress on implementing recommendations from the Protective Mission Panel and House Oversight and Government Reform Committee in three key areas: personnel and training; technology, perimeter security and operations; and leadership. Through Operational

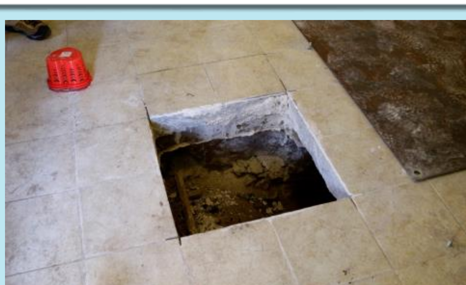
Mission Support initiatives, USSS has acquired and implemented advanced protective countermeasures to improve security operations and protection at the White House Complex, the Vice President's Residence, and temporary sites. These improvements include protection from emerging explosive, chemical, biological, radiological, and cyber threats and investing in the modernization and support of mission-critical IT systems and infrastructure for protective and investigative mission operations. USSS will continue in the coming year to work towards achieving its staffing goals by pursuing retention initiatives to reduce its annual attrition and following aggressive hiring and training plans.

Mission 2: Secure and Manage Our Borders

A safe and secure homeland requires that we secure our air, land, and sea borders and disrupt and dismantle transnational criminal and terrorist organizations while facilitating lawful travel and trade.

Our goals for this mission are:

- Goal 2.1: Secure U.S. Air, Land, and Sea Borders and Approaches;
- Goal 2.2: Safeguard and Expedite Lawful Trade and Travel; and
- Goal 2.3: Disrupt and Dismantle Transnational Criminal Organizations and Other Illicit Actors.



Another Cross-border Drug Tunnel Dismantled

Federal officials seized a cross-border tunnel on the morning of March 23, 2016 following a lengthy multi-agency investigation that resulted in six arrests and the confiscation of more than a ton of marijuana. The tunnel—more than 400 yards in length— stretches from the former El Sarape Restaurant, now a coffee shop, in Mexicali, Mexico, to a two-bedroom Calexico residence located at 902 E. Third Street, about 300 yards north of the international border. In the front room of the residence, agents found a hole concealed in the floor about three feet in diameter with an opening that descends several feet beneath the foundation.

This is the first operational tunnel discovered in Calexico in nearly a decade. According to federal investigators, it also represents the first time drug traffickers are known to have purchased property and constructed a house for the sole purpose of concealing the exit of a subterranean drug tunnel. The search warrant affidavit and charging documents allege the traffickers scouted properties in the area and selected the Third Street parcel in a residential section of Calexico. The sale of the property for $240,000 was finalized by the defendants in April 2015.

"This significant cross-border drug seizure and tunnel discovery is an excellent example of the integrated efforts taking place daily across multiple law enforcement agencies to protect America by providing secure borders," said El Centro Sector Chief Patrol Agent Rodney S. Scott. "This tunnel discovery is further proof that America's investment in border security is paying off. As we continue to improve border security, criminal organizations are forced to resort to tunneling and other complicated and costly smuggling methods, which increases their exposure to detection by law enforcement."

Rate of interdiction effectiveness along the Southwest Border between ports of entry (CBP)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
---	---	79.28%	81.01%	81%	82.67%

This measure reports the percent of detected illegal entrants who were apprehended or turned back after illegally entering the United States between the ports of entry on the southwest border. The Border Patrol achieves this desired strategic outcome by maximizing the apprehension of detected illegal entrants or confirming that illegal entrants return to the country from which they entered; and by minimizing the number of persons who evade apprehension. In FY 2016, this measure achieved 82.67 percent, which is roughly a 1.5 percent increase from FY 2015. It should be noted that resources are deployed to those areas deemed to be the highest risk and as undocumented aliens are turning themselves in, the interdiction effectiveness rate is able to reflect a higher capability to respond than our resources might otherwise allow.

Migrant interdiction effectiveness in the maritime environment (USCG)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
---	---	---	74.8%	74%	79.3%

This measure reports the percent of detected undocumented migrants of all nationalities who were interdicted by the USCG and partners via maritime routes. Thousands of people try to enter this country illegally every year using maritime routes. USCG conducts patrols and coordinates with other federal agencies and foreign countries to interdict undocumented migrants at sea, denying them entry via maritime routes to the United States, its territories and possessions. Interdicting migrants at sea means they can be quickly returned to their countries of origin without the costly processes required if they successfully enter the United States. In its second year of reporting, the USCG achieved 79.3 percent migrant interdiction effectiveness, up significantly from FY 2015. This increase is due primarily to the deployment of additional USCG assets, including a medium endurance cutter, in order to respond to a 64.5 percent increase in Cuban migrant flow across the South Florida Straits over the same time period last year. Cuban migrants made up 71.3 percent of the total known maritime migrant flow in last quarter of FY 2016.

Percent of inbound cargo identified by CBP as potentially high-risk that is assessed or scanned prior to departure or at arrival at a U.S. port of entry (CBP)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
98.00%	98.00%	99.22%	99.76%	100%	99.28%

This measure gauges the percent of international cargo coming to the United States via air, land, and sea identified as potentially high-risk, using the Automated Targeting System, that is assessed or scanned prior to loading or at arrival at a U.S. port of entry. Assessing, resolving, and when necessary scanning potentially high-risk cargo prior to loading or at arrival at ports of entry improves the safety of the U.S. public and minimizes the impact to the trade community through the effective use of risk-focused targeting. The results did not achieve the aspirational goal of 100 percent, and are slightly down from last year due to a change in the targeting methodology. The CBP Office of Field Operations will continue to work diligently to improve targeting algorithms within the Automated Targeting System as well as improvements to procedures, logistics, and scheduling with shippers and carriers.

Percent of imports compliant with U.S. trade laws (CBP)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
96.46%	97.66%	97.99%	98.89%	97.5%	99.18%

This measure reports the percent of imports that are compliant with U.S. trade laws including customs revenue laws. Ensuring that all imports are compliant and free of major discrepancies allows for lawful trade into the United States. CBP works with our international trade partners through several trade programs to build—and improve upon—a solid and efficient trade relationship to accomplish safer, faster, and more compliant trade. In FY 2016, 99.18 percent of imports were found to be compliant with U.S. trade laws. Results continue to improve and are at a five-year high.

ICE Makes 84 Arrests in PA, DE, and WV during Targeted Operation

In May 2016, Immigration and Customs Enforcement (ICE) Enforcement and Removal Operations concluded a week-long enforcement operation targeting criminal aliens and other immigration violators.[1] During the operation, part of a larger agency effort prioritizing the arrest and removal of convicted criminal aliens as well as other illegally present enforcement priorities, Officers arrested 84 individuals in Pennsylvania, Delaware, and West Virginia. The arrested targets, all of whom fell under enforcement priorities set forth in DHS Secretary Johnson's 2014 memorandum, possessed convictions for corruption of a minor, robbery, felony fraud, and cocaine and heroin possession, among other crimes.

Prioritized enforcement efforts allow ICE to focus its resources on the most egregious offenders, including convicted criminals and public-safety threats to the community.

Looking Forward

The protection of the Nation's borders—land, air, and sea—from the illegal entry of people, weapons, drugs, and other contraband while facilitating lawful travel and trade is vital to homeland security, as well as the Nation's economic prosperity. The global economy is increasingly a seamless economic environment connected by systems and networks that transcend national boundaries. The United States is deeply linked to other countries through the flow of goods and services, capital and labor, and information and technology across our borders. As much as these global systems and networks are critical to the United States and our prosperity, they are also targets for exploitation by our adversaries, terrorists, and criminals. Thus, border security cannot begin simply at our borders. Below are a few initiatives that advance our efforts to secure and manage our borders.

[1] See ICE Newsroom, "ICE Arrests 84 in PA, DE, WV during operation targeting criminal aliens," https://www.ice.gov/news/releases/ice-arrests-84-pa-de-wv-during-operation-targeting-criminal-aliens

Joint Task Force (JTF) Implementation

On November 20, 2014, Secretary Johnson directed the creation of the Southern Border and Approaches Campaign—a unified approach to improve how the Department protects the homeland across our southern borders. The campaign will harness and more effectively coordinate the assets and personnel of CBP, ICE, the USCG, and other resources of the Department. The intent of this campaign is better coordination in enforcement and interdiction across land, sea, and air; to degrade transnational criminal organizations; and to do these things while still facilitating the flow of lawful trade, travel, and commerce across our borders. Moving forward, the Department will continue to engage the joint task force approach. This consists of: 1) JTF-East, which is responsible for our southeast maritime approaches; 2) JTF-West, which is responsible for our southwest land border; and 3) JTF-Investigations, which supports the work of the other two task forces and focuses on investigations throughout the Nation and with our foreign partners.

Biometrics Exit Program

Included in the *Intelligence Reform and Terrorism Prevention Act of 2004*, Congress directed DHS to enhance security of the U.S. border and immigration system through the development of a Biometric Air Entry and Exit System. The biometric entry system is in place and the 2016 Consolidated Appropriations Act authorized DHS to collect up to $1 billion over a period of up to 10 years through USCIS fees for the implementation of a biometric exit program across all modes of travel. The collection of these funds began in 2016 and is expected to be about $115 million per year until the $1 billion is collected in 2024. CBP is developing and deploying a biometric exit system where traveler identities are biometrically-verified upon exit from the United States at air, sea, and land ports of entry. There are four Biometric Pilots in place at ports of entry around the country that incorporate multiple modes of biometric verification to include fingerprints, iris scan, and new facial comparison scans. Current CBP estimates indicate that $1 billion in fees will cover the initial solution investment and deployment to the top 20 gateway airports. Additional funding will be necessary to fully cover the salaries and expenses associated with full deployment and sustainment beyond 2024. CBP expects to begin implementing a biometric air exit solution at airports by the end of fiscal year 2018. Planning for the sea and land Ports of Entry are underway and expected to be initiated in fiscal year 2020; however funding requirements and solutions are still being developed.

Trade Enforcement Act Implementation

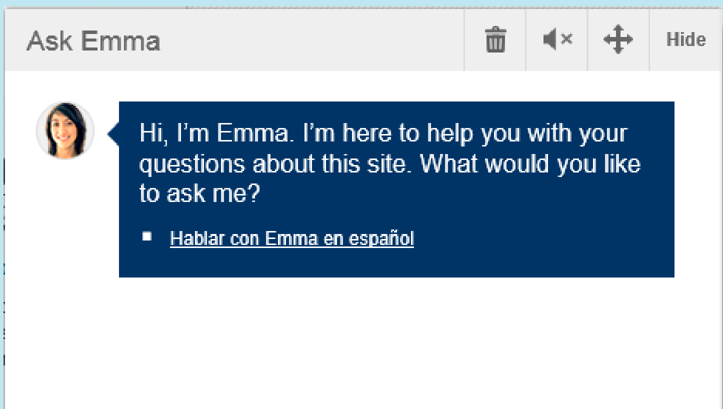
With the signing of the Trade Facilitation and Trade Enforcement ACT (TFTEA) on February 24, 2016, Congress and the Administration sent a clear signal that security through U.S. economic competitiveness and enforcement of our trade laws and regulations is one of the country's highest priorities. TFTEA is one of the most significant pieces of trade legislation for CBP in over a generation and includes major changes to trade enforcement, particularly in the area of anti-dumping. An advantage of the Act for CBP is that it provides opportunities for greater facilitation of lawful trade, such as the modernization of the drawback process for duty refunds. The Act also authorizes funding for the single window portal known as the Automated Commercial Environment (ACE) system which will be the primary system through which the trade community will report imports and exports and the government will determine admissibility.

Mission 3: Enforce and Administer Our Immigration Laws

A fair and effective immigration system enriches American society, unifies families, and promotes our security. Our Nation's immigration policy plays a critical role in advancing homeland security.

Our goals for this mission are:

- Goal 3.1: Strengthen and Effectively Administer the Immigration System; and
- Goal 3.2: Prevent Unlawful Immigration.



USCIS Uses Technology to Level the Playing Field for Immigrants

U.S. Citizenship and Immigration Services is leveraging technology to create multi-channel tools that give customers faster and easier access to immigration information, when and where they need it.

The flagship of the new suite of tools is *myUSCIS*, an online one-stop shop for immigration information. It includes an Explore My Options tool, civics practice test, citizenship class locator, and Find a Doctor, all of which are accessible from any mobile device, anytime, anywhere. *myUSCIS* saw nearly 3 million sessions in its first year.

myUSCIS is joined by Emma, an interactive tool that helps customers get answers to their immigration questions in plain English or Spanish. In just over 6 months, Emma responded to more than 2.7 million inquiries from more than 730,000 visitors. Ninety percent of English-speaking individuals and 85 percent of Spanish-speaking individuals were successful when using Emma to answer their questions.

USCIS is garnering a reputation as a leader in digital services for fundamentally transforming how it serves a multifaceted, mobile, and sometimes vulnerable, customer base. Public and private agencies have validated USCIS' latest innovations with several prestigious awards and recognition.

Average of processing cycle time (in months) for naturalization applications (N-400) (USCIS)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
4.6	4.7	5.5	5.0	≤ 5.0	5.8

The N-400, Application for Naturalization, is filed by an individual applying to become a U.S. citizen. Naturalization applications were 26 percent higher than projected in FY 2016 resulting in a 5.8 month average cycle time. Results are consistent with prior year results when application volume is taken into account. USCIS will continue to focus on quality, employee training, workload shifting, technology enhancements, and supervisory engagement to increase the efficiency of case processing.

Percent of customers satisfied with the citizenship and immigration-related support received from the National Customer Service Center (USCIS)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
93%	87%	86%	88%	85%	85%

This measure gauges the overall rating of the immigration process and is based on the results from the following areas: 1) accuracy of information; 2) responsiveness to customer inquiries; 3) accessibility to information; and 4) customer satisfaction. The FY 2016 result for this measure, 85 percent, is consistent with the results for the past four years and is indicative of the attention USCIS has given to the customer service approach. In addition, these results continue to exceed industry customer satisfaction averages. Throughout the year, USCIS has met the target by constantly listening to customer feedback and taking deliberate steps to improve the level of service provided to its customers.

Percent of applications for citizenship and immigration benefits not approved following a potential finding of fraud (USCIS)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
---	---	---	---	90%	91.3%

This measure reflects the Department's capacity to prevent fraud, abuse, and exploitation of the immigration system, and address systemic vulnerabilities that threaten its integrity. By not approving benefits to individuals potentially attempting to commit fraud, and who were not eligible for a waiver or exemption, USCIS is actively eliminating vulnerabilities, and identifying ways to continue to deter and prevent fraud in the future. This is the first year this measure is reporting results and exceeded expectations achieving, 91.3 percent.

Percent of detention facilities found in compliance with the national detention standards by receiving an acceptable inspection rating (ICE)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
97%	100%	100%	100%	100%	100%

ICE's Enforcement and Removal Operations (ERO) manages and oversees the Nation's civil immigration detention system. ICE detainees placed in ERO custody represent virtually every country in the world, various security classifications, both genders, and medical conditions ranging from healthy to terminally ill. Through an aggressive inspections program, ICE ensures its facilities follow ICE's National Detention Standards. While not all facilities may be found to be at standard on the initial assessment, ICE works with those facilities to ensure any shortfalls are addressed to meet the 100 percent compliance rate. ERO's Detention Standards Compliance Unit ensures that detainees in ICE custody reside in safe, secure, and humane environments and under appropriate conditions of confinement. For the fourth straight year, detention facilities found in compliance was 100 percent.

Special High Risk Charter (SHRC) Missions

ICE's Air Operations (IAO) Division, in conjunction with the Removal Management Division (RMD), has the duty and responsibility to plan and conduct SHRC flights to repatriate alien nationals who have "Failed to Comply" with their removal order, or those that cannot be removed by normal commercial air transportation to Europe, Central Asia, the Pacific Rim, Africa, and the Middle East.

IAO conducted 27 SHRC flights in FY 2016 resulting in more than 250 removals of people to dozens of countries, which includes flights to 16 new countries due to continuing efforts to repatriate individuals. This level of activity shattered previous year's SHRC removals.

In order to achieve greater success in FY 2016, IAO focused on improving its efficiency and effectiveness in the planning and execution of SHRC missions. Specifically, IAO focused on increasing its overall communication with all stakeholders which led to an increase in productivity in planning and completing SHRC missions. As a direct result of implementing newly identified operational efficiencies and creating an environment fostering a collaborative approach, FY 2016 SHRC missions have been completed with minimal issues.

Looking Forward

The success of our Nation's immigration policy plays a critical role in advancing homeland security. The Department is focused on smart and effective enforcement of U.S. immigration laws while streamlining and facilitating the legal immigration process. Effective administration of the immigration system depends on ensuring that immigration decisions are impartial, lawful, and sound; that the immigration system is interactive and user friendly; that policy and procedural gaps are systematically identified and corrected; and that those vulnerabilities which would allow persons to exploit the system are eliminated. Enforcement efforts must prioritize the identification and removal of dangerous foreign nationals who threaten our national security or the safety of our communities and must include safe and humane detention conditions and respect for due process and civil rights, as accorded by law. Below are a few initiatives that advance our efforts to achieve the Department's immigration enforcement and administration goals.

U.S. Citizenship and Immigration Services' Improvement Plans

USCIS secures America's promise as a nation of immigrants by granting citizenship and immigration benefits, promoting awareness and understanding of citizenship, ensuring the integrity of the immigration system, and providing accurate and useful information to its customers. On an average day, USCIS: completes 24,000 applications for various immigration benefits; welcomes 3,200 new citizens; answers 44,000 phone calls to our toll-free customer service line; serves 9,500 customers at 84 local offices; fingerprints and photographs 15,000 applicants at 136 application support centers; conducts 148,000 national security background checks; and processes 2,040 petitions filed by employers to bring workers to the United States. USCIS recently leveraged a suite of technology tools that give customers faster and easier access to immigration information. The flagship of the new suite of tools is *myUSCIS*, an online one-stop shop for immigration information. To improve the customer experience moving forward, USCIS will make enhancements to these tools that expand the value, relevance, and reach for customers and stakeholders.

Priority Enforcement Program (PEP)

DHS's Priority Enforcement Program (PEP) enables DHS to work with state and local law enforcement to take custody of individuals who pose a danger to public safety before those individuals are released into our communities. ICE works in more than 4,300 federal, state, and local prisons and jails throughout the country. Under PEP, ICE will seek the transfer of a removable individual when that individual has been convicted of an offense listed under the DHS civil immigration enforcement priorities, has intentionally participated in an organized criminal gang to further the illegal activity of the gang, or poses a danger to national security. PEP begins at the state and local level when an individual is arrested and booked by a law enforcement officer for a criminal violation. PEP relies on the fingerprint-based biometric data submitted during the book-in process to determine whether the individual is a priority for removal. While biometric interoperability makes PEP more efficient, effective, and accurate, it only provides awareness of a criminal's arrest. ICE officers are still required to interview the identified individual. To ensure PEP's success, DHS continues to engage in significant outreach to external stakeholders and law enforcement partners to educate them about PEP and how PEP differs from the previous program known as Secure Communities. A number of cities and counties that previously did not work with ICE are now doing so under PEP. In particular, the following large U.S. counties are participating in PEP: Los Angeles and San Diego Counties in California, Hillsborough and Pinellas Counties in Florida, and Baltimore County in Maryland.

Mission 4: Safeguard and Secure Cyberspace

Our economic vitality and national security depend on a vast array of interdependent and critical cybernetworks, systems, services, and resources. By statute and Presidential Directive: DHS is the lead for the Federal Government to secure civilian government computer systems; works with industry to defend privately owned and operated critical infrastructure; and works with state, local, tribal, and territorial governments to secure their information systems.
Our goals for this mission are:

- Goal 4.1: Strengthen the Security and Resilience of Critical Infrastructure;
- Goal 4.2: Secure the Federal Civilian Government Information Technology Enterprise;
- Goal 4.3: Advance Law Enforcement, Incident Response, and Reporting Capabilities; and
- Goal 4.4: Strengthen the Ecosystem.

Cyber Storm V: National Cyber Exercise

In March 2016, more than 1,100 people from more than 60 organizations across the country and worldwide participated in Cyber Storm V, the Nation's most extensive cybersecurity exercise which was conducted over three days.

Hosted by the Department of Homeland Security, participants ranging from across government, critical infrastructure, and the private sector were presented with a scenario. New participants included the public health sector and the retail sector. This scenario required participants to exercise their training, policies, processes, and procedures for identifying and responding to a multi-sector cyberattack targeting critical infrastructure. The Cyber Storm V scenario created an environment that promoted cooperation and information sharing across the United States government, states, the private sector, and international partners.

Percent of intelligence reports rated "satisfactory" or higher in customer feedback that enable customers to manage risks to cyberspace (I&A)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
88%	94%	94%	93%	94%	84%

The ability of federal, state, local, tribal, territorial, and private sector partners to share accurate information quickly is essential to the Nation's security and resilience. In today's interconnected world, every second can make a difference in either preventing an incident or responding to an event that affects the Nation. This measure assesses how well the Department provides actionable intelligence to our partners to manage risks to cyberspace. In FY 2016, I&A achieved an 84 percent rating, down from previous years. I&A consistently monitors customer satisfaction with all analytical products including those related to cybersecurity issues. Managers and analysts are regularly provided the feedback with the intent of ensuring all analytic products are responsive to our customer needs. I&A is evaluating changes to organizational processes and tools.

Percent of organizations that have implemented at least one cybersecurity enhancement after receiving a cybersecurity vulnerability assessment or survey (NPPD)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
---	100%	63%	100%	100%	100%

This measure demonstrates the percent of assessed asset owners and operators of critical infrastructure that are not only developing a better understanding of their cybersecurity posture, but are also taking action to improve that posture. In FY 2016, 100 percent of organizations who received an assessment also implemented at least one cybersecurity enhancement. This year's results represent an excellent commitment by the asset owners and operators and is the third year out of the last four to achieve a 100 percent rating.

Percent of traffic monitored for cyber intrusions at civilian Federal Executive Branch agencies (NPPD)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
73.0%	82.4%	88.5%	94.3%	95%	98.7%

This measure assesses DHS's scope of coverage for potential malicious cyber-activity across participating civilian Federal Government agencies.[2] Federal Executive Branch network monitoring uses EINSTEIN network flow and intrusion detection system sensors which are deployed to trusted Internet connection locations at agencies or Internet service providers. These sensors capture network flow information and provide alerts when signatures, indicative of malicious activity, are triggered by inbound or outbound traffic. The Federal Government's situational awareness of

[2] Defined as Chief Financial Officers (CFO) Act agencies (other than the Department of Defense) as well as non-CFO Act agencies that are Trusted Internet Connection Access Provider agencies.

malicious activity across its systems will increase as more networks are monitored. In FY 2016, 98.7 percent of the Federal Executive Branch agencies network traffic was monitored for cyber-intrusions. There has been steady improvement in results since FY 2012.

Percent of known malicious cyber traffic prevented from causing harm at federal agencies (NPPD)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
---	---	100%	100%	100%	100%

This measure gages the ability of the Department of Homeland Security to defend federal civilian agency networks from cyber threats by assessing the percent of known malicious activity that is mitigated on federal agencies' networks through an active defense capability known as EINSTEIN 3 Accelerated. This is achieved by actively defending against malicious activity through detection and prevention, and applying countermeasures if needed for protection. DHS has met the FY 2016 annual target; however, results may fall below 100 percent in future fiscal years as the program expands the number of indicators and countermeasures used.

Amount of dollar loss prevented by Secret Service cyber investigations (in millions) (USSS)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
---	$1,119	$384	$589	$575[3]	$558

The USSS maintains Electronic Crimes Task Forces, which focus on identifying and locating international cybercriminals connected to cyber intrusions, bank fraud, data breaches, and other computer-related crimes. This measure reflects USSS's efforts to reduce cyber-related financial losses to the public. In FY 2016, $558 million in losses were prevented by USSS cyber-investigations. This year's target was not met as many financial and cybercrime cases are very large in scope and take a long time to investigate, and many agents were diverted to support campaign protection. USSS will improve performance by addressing staffing shortfalls, assignments, and training.

Number of law enforcement individuals trained in cybercrime and cyberforensics both domestically and overseas (USSS)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
---	1,517	1,533	2,070	1,800[4]	1,906

The specialized technical training the USSS provides in cybercrime and cyberforensics is conducted both domestically and overseas in an effort to strengthen our ability to fight cybercrime. The training serves to substantially enhance law enforcement efforts to suppress the continually

[3] FY 2016 target reflects USSS allocation of personnel to support campaign protection.
[4] FY 2016 target reflects USSS allocation of personnel to support campaign protection.

evolving and increasing number of electronic crime cases affecting communities nationwide, as well as improve and strengthen the prosecution and adjudication of those cases. The FY 2016 target was met; however, due to USSS's allocation of personnel to support campaign protection the result was slightly down from FY 2015.

Percent of planned cyber security products and services transitioned to government, commercial and open sources (S&T)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
---	89%	93%	60%	73%	73%

S&T's Cyber Security Division's (CSD) mission is to contribute to enhancing the security and resilience of the Nation's critical information infrastructure and the Internet through research and development. This measure reflects the percent of identified and completed planned transitions of cybersecurity products and/or services (e.g., technologies, tools, capabilities, standards, and knowledge products) within S&T's CSD projects to government, commercial or open sources. In FY 2016, S&T met their goal with results up from FY 2015, completing eight out of 11 planned transitions. These included the transition of: a new vehicle forensics hardware and software to support law enforcement; new technology to streamline and improve secure information sharing between DHS and its partners; an open source module development for law enforcement forensics; integration of Sonatype "application health checker" into the Software Assurance Marketplace to ensure quality of open source software; and Active-defense Resilient Mission-Oriented Cloud platform software, data sets, analyses and documentation to defend against vulnerabilities and threats in distributed and cloud computing infrastructures. CSD also released an Insider Threat Study for DHS Office of Security and a DHS Cumulative Technical Report for DHS S&T. Completing these planned transitions means cybersecurity research and development have resulted in deployable security solutions.

Major Cybercriminal Extradited From Czech Republic

Evgeny Tarasovich Levitskyy, of Nikolaev, Ukraine, was arraigned on August 5, 2016 on federal charges of conspiracy to commit bank fraud, bank fraud, conspiracy to commit wire fraud, and wire fraud.

In 2008, an American credit card processor, RBS WorldPay, was hacked in one of the most sophisticated and organized computer fraud attacks ever conducted. A team of hackers compromised the data encryption used to protect customer data on payroll debit cards and raised the account limits on compromised accounts to amounts exceeding $1,000,000. The hackers then provided a network of cashers with 44 counterfeit payroll debit cards, which were used to withdraw more than $9 million from over 2,100 ATMs in at least 280 cities worldwide, including cities in the United States, Russia, Ukraine, Estonia, Italy, Hong Kong, Japan, and Canada. The $9 million loss occurred within a span of less than 12 hours.

This joint investigation by the U.S. Secret Service and the Federal Bureau of Investigation led to the charging of 14 individuals involved in the hack and cash out crimes. This includes the alleged frontrunner, Evgeny Tarasovich Levitskyy, who was extradited from the Czech Republic to face federal charges of conspiracy to commit bank fraud, bank fraud, conspiracy to commit wire fraud, and wire fraud. Michael Breslin, Special Agent in Charge of the United States Secret Service's Criminal Investigative Division, stated: "Based on our longstanding role in transnational cyber investigations and network intrusions, the U.S. Secret Service worked in conjunction with our law enforcement partners to provide critical evidence to further this investigation. Our partnerships in law enforcement, the private sector, and academia are our greatest resources in combatting these sophisticated and complex crimes and today's arraignment is proof that our strong commitment endures across all borders."

Looking Forward

Cyberspace and its underlying infrastructure are vulnerable to a wide range of risk stemming from both physical and cyberthreat hazards. Sophisticated cyber-actors and nation-states exploit vulnerabilities to steal information and money and are developing capabilities to disrupt, destroy, or threaten the delivery of essential services. A range of traditional crimes are now being perpetrated through cyberspace, including banking and financial fraud, intellectual property violations, child exploitation, and other crimes, all of which have substantial human and economic consequences.

Cyberspace is particularly difficult to secure due to a number of factors: the ability of malicious actors to operate from anywhere in the world; the linkages between cyberspace and physical systems; and the difficulty of reducing vulnerabilities and consequences in complex cyber networks. A growing concern is the cyberthreat to critical infrastructure, which is increasingly subject to sophisticated cyber-intrusions that pose new risks. As information technology becomes increasingly integrated with physical infrastructure operations, there is increased risk for wide-scale or high-consequence events that could cause harm or disrupt services upon which our economy and the daily lives of millions of Americans depend. In light of the risk and potential consequences of cyber-events, strengthening the security and resilience of cyberspace has become an important homeland security mission.

National Cybersecurity Protection System

The mission of DHS's Network Security Deployment (NSD) division is to improve cybersecurity to federal departments, agencies, and partners by developing the technologies and establishing the services needed to fulfill the Department's cybersecurity mission. To meet that mission need, NSD designs, develops, deploys, and sustains the National Cybersecurity Protection System (NCPS), which provides intrusion detection, advanced analytics, information sharing, and intrusion prevention capabilities that combat and mitigate cyberthreats to the federal executive branch information and networks. These capabilities provide a technological foundation that enables DHS to secure and defend the federal civilian government's information technology infrastructure against advanced cyber threats. NCPS advances DHS's responsibilities as delineated in the Comprehensive National Cybersecurity Initiative. Moving forward, DHS has identified an Agency Priority goal to support this effort to fully deploy by the end of calendar year 2016. See https://www.performance.gov/content/improve-federal-network-security?view=public for more information.

Continuous Diagnostics and Mitigation

DHS's Continuous Diagnostics and Mitigation (CDM) program is a dynamic approach to fortifying the cybersecurity of government networks and systems. CDM provides federal departments and agencies with capabilities and tools that identify what is on your network, who is on your network, and what is happening on your network. These tool provide a risk-based view of threats and enable cybersecurity personnel to mitigate the most significant problems first. As part of the Department's Cyber Agency Priority Goal, our plan is to have these tools delivered in a phased approach with the third phase being 97 percent complete, through contract award, by the end of FY 2017.

Combating Cybercrime

Today's world is more interconnected than ever before. Yet, for all its advantages, increased connectivity brings increased risk of theft, fraud, and abuse. As Americans become more reliant on modern technology, we also become more vulnerable to cyberattacks such as corporate security breaches, spear phishing, and social media fraud. Complementary cybersecurity and law enforcement capabilities are critical to safeguarding and securing cyberspace. Law enforcement performs an essential role in achieving our Nation's cybersecurity objectives by investigating a wide range of cybercrimes and apprehending and prosecuting those responsible. Now and moving forward, DHS works with other federal agencies to conduct high-impact criminal investigations to disrupt and defeat cybercriminals, prioritize the recruitment and training of technical experts, develop standardized methods, and broadly share cyber-response best practices and tools. Criminal investigators and network security experts with deep understanding of the technologies malicious actors are using and the specific vulnerabilities they are targeting work to effectively respond to and investigate cyber incidents.

Mission 5: Strengthen National Preparedness and Resilience

Despite ongoing vigilance and efforts to protect this country and its citizens, major accidents and disasters, as well as attacks, may occur. The challenge is to build the capacity of American communities to be resilient in the face of disasters and other threats. Our vision of a resilient Nation is one with the capabilities required across the whole community to prevent, protect against, mitigate, respond to, and recover from the threats and hazards that pose the greatest risk.

Our goals for this mission are:

- Goal 5.1: Enhance National Preparedness;
- Goal 5.2: Mitigate Hazards and Vulnerabilities;
- Goal 5.3: Ensure Effective Emergency Response; and
- Goal 5.4: Enable Rapid Recovery.

Rescue Efforts with Our International Partners

During the deadliest disaster on record in Nepal, working as part of a small team airlifted into the remote village of Singati, members of Virginia Urban Search & Rescue (US&R) Task Force One, and California US&R Task Force 2, treated scores of civilians injured in a catastrophic earthquake. Both task forces are members of FEMA's National US&R Response System, and they were deployed to Nepal under their concurrent agreement with the United States Agency for International Development, Office of Foreign Disaster Assistance. In the midst of their medical efforts, they received reports of people trapped inside a collapsed structure. Team members raced to a caved-in building to look for signs of life. After significant effort within a very unstable building they found a boy who was sadly killed in the quake. They then worked tirelessly to save the life of a Nepalese woman who was trapped between collapsed floors. The crew's rescue efforts were complicated not only by the instability of the structure on a steep hillside, but also repeated aftershocks that triggered landslides. Given the high altitude and the limits of what could be brought in by aircraft, they worked with a limited number of basic rescue tools. Task force members leveraged their experience with the FEMA US&R tactical operational procedures and the System Readiness Assessment Program to effect this complicated dramatic rescue.

On August 18, 2016, in recognition of their heroic actions following the devastating Nepal Earthquake, task force members from both teams were honored with the prestigious Ben Franklin Award for Valor from the International Association of Fire Chiefs (IAFC). Presented annually, the Ben Franklin Award for Valor is the IAFC's most prestigious award. This award honors a firefighter for his or her expert training, professional service, and dedication to duty displayed in saving a human life.

Percent of communities in high earthquake, flood, and wind-prone areas adopting disaster-resistant building codes (FEMA)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
56%	57%	61%	63%	62%	68%

This measure assesses the number of communities adopting building codes containing provisions that adequately address earthquake, flood, and wind hazards. FEMA works with code adoption and enforcement organizations to support community implementation of disaster resistant building codes, defined as being in compliance with the National Flood Insurance Program regulations, equivalent to the National Earthquake Hazards Reduction Program recommended provisions, and in compliance with the provisions of the International Codes as designated by the International Codes Council. FEMA also works with the Insurance Services Office Building Code Effectiveness Grading Schedule data to track the number of high-risk communities subject to flood, wind, earthquake, and combined perils that have adopted disaster resistant building codes over time. Progress continues to be made due to training, education, outreach, and adoption of building codes by both communities and businesses as evidenced by the FY 2016 results of 68 percent, up from FY 2015.

Percent of states and territories with a Threat and Hazard Identification and Risk Assessment (THIRA) that meets current DHS guidance (FEMA)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
---	86%	71%	77%	100%	86%

The National Preparedness Goal is, "A secure and resilient Nation with the capabilities required across the whole community to prevent, protect against, mitigate, respond to, and recover from the threats and hazards that pose the greatest risk." The THIRA is a four step common risk assessment process that helps the whole community—including individuals, businesses, faith-based organizations, nonprofit groups, schools and academia and all levels of government—understand its risks and estimate capability requirements. FEMA has set the target for this measure to be 100 percent in light of its importance to the "whole community." In FY 2016, 86 percent of states and territories have developed a THIRA that meets all 4 steps of the current DHS guidance. FEMA provides technical assistance to help jurisdictions improve their THIRA by improving their targets developed for each core capability in the National Preparedness Goal and understanding their resource needs to meet their target. FEMA will continue to provide technical assistance in FY 2017, as jurisdictions specifically identified challenges with THIRA Step 3 (describing impacts and desired outcomes and establishing capability targets and target statements) and Step 4 (applying the results of the THIRA by estimating resources required to meet capability targets), as well as Whole Community Engagement.

Percent of incident management and support actions taken that are necessary to stabilize an incident that are performed within 72 hours or by the agreed upon time (FEMA)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
---	100%	100%	100%	100%	100%

Actions necessary to stabilize an incident are defined as those functions that must be initiated immediately following an incident in order to ensure the best outcomes for survivors. These actions include establishing joint federal/state incident objectives and interoperable communications between FEMA-supported incident sites, deploying urban search and rescue resources, rapidly activating response coordination centers, and issuing timely alerts, warnings, operations orders, and situation reports. This measure reflects FEMA's role in effectively responding to any threat or hazard, with an emphasis on saving and sustaining lives within 72 hours, in support of state, local, tribal, and territorial governments. All response incident management and support actions initiated in FY 2016 met required timeframes and requirements for Incident Management Assistance Teams, Urban Search and Rescue, Mobile Emergency Response Support, National Response Coordination Center, FEMA Operations Center, and National Watch Center resources. FEMA has met this target four consecutive years.

Percent of people in imminent danger saved in the maritime environment (USCG)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
77.3%	79.0%	79.0%	80.0%	100%	79.3%

Minimizing the loss of life by rendering aid to persons in distress involves multi-mission stations, cutters, aircraft, and boats linked by communications networks. Search and Rescue (SAR) is one of the USCG's oldest missions. To meet this responsibility, the USCG maintains SAR facilities on the East, West, and Gulf coasts; in Alaska, Hawaii, Guam, and Puerto Rico; and on the Great Lakes and inland U.S. waterways. Several factors hinder successful response including untimely distress notification to the USCG, incorrect distress site location reporting, severe weather conditions at the distress site, and distance to the scene. The USCG saved 5,204 lives in FY 2016, which was 79.3 percent of those in danger, and is consistent with long-term results and trends. The USCG will continue to plan, train, develop better technologies, and invest in capable assets to continue their exemplary performance in saving lives in the maritime environment.

Percent of recovery services through Individual Assistance delivered to disaster survivors gauging the quality of program services, supporting infrastructure, and customer satisfaction following a disaster (FEMA)

FY12 Result	FY13 Result	FY14 Result	FY15 Result	FY16 Target	FY16 Result
---	94.5%	91.5%	96.9%	94%	95.3%

Recovery assistance helps individuals and communities affected by disasters and emergencies return to normal quickly and efficiently. This measure is based upon three categories: program services; supporting infrastructure; and customer satisfaction. Sub-elements within these three categories include: providing temporary housing assistance and case management; having available grant management and internet and telephone registration systems; ensuring call centers respond quickly and business staff are in place; and delivering these services to enhance customer satisfaction of those receiving individual assistance from FEMA following a disaster. In FY 2016, FEMA met their target achieving a 95.3 percent rating of services provided to disaster survivors through the Individual Assistance Program and is slightly down from FY 2015. While the results of this measure have fluctuated, it has remained above 90 percent for the past four years. The Individual Assistance Program will incorporate after action report findings from 2016 disaster efforts to influence strategic decisions, performance framework development, and process improvements.

Mass Rescue Operation at Sea

On August 17th, 2016, USCG Sector San Juan received a distress call from cruise ship CARIBBEAN FANTASY. The cruise ship, carrying more than 500 passengers and crew onboard, experienced an engine room fire that quickly spread throughout the vessel. Sector San Juan immediately activated its Mass Rescue Operations (MRO) plan, launching USCG assets and coordinating with various federal and local agencies to assist. All 500+ passengers and crew evacuated into life rafts and were safely transported to shore by responding government, commercial, and private vessels.

The outstanding coordination and response of involved agencies is a result of the combined efforts of maritime stakeholders to ensure proper measures are in place for such an event. MRO incidents are challenging and complex, requiring extensive planning and preparation for optimal response. USCG works nation-wide with industry stakeholders, and other federal, state, and local agencies to establish and exercise regional MRO plans to ensure seamless response and multi-agency coordination should real-world incidents like this occur.

Looking Forward

The Department coordinates comprehensive federal efforts to prepare for, protect against, respond to, recover from, and mitigate a terrorist attack, natural disaster or other large-scale emergency, while working with individuals, communities, the private and nonprofit sectors, faith-based organizations, and federal, state, local, tribal, and territorial partners to ensure a swift and effective recovery effort. The Department's efforts to build a ready and resilient Nation include fostering a whole community approach to emergency management nationally; building the Nation's capacity to stabilize and recover from a catastrophic event; bolstering information sharing and building unity of effort and common strategic understanding among the emergency management team; building plans and providing training to our homeland security partners; and promoting preparedness within the private sector. Below are a few initiatives that advance our efforts to achieve our preparedness and resilience goals.

National Incident Management System (NIMS)

As part of its efforts to engage and support the Whole Community in all aspects of emergency management, the Department has established a standardized approach to guide all levels of government, nongovernmental organizations, and the private sector in working together to seamlessly manage incidents. Key tenets of NIMS include: a common operating picture to enable entities to make consistent and informed decision; interoperability to facilitate communication and sharing across agencies and jurisdictions; consistent resource management which provides coordination and standardization for incident response resources; and the incident command system which is a standardized management system for integrating equipment, personnel, procedures, and more. Moving forward, NIMS will increase the focus on resource typing and mutual aid, including the development of mutual aid networks that could operate in a modular approach similar to modern wildfire response. In addition, it will enhance information management processes including social media integration and geographical information systems.

National Flood Insurance Program
The Department administers the National Flood Insurance Program (NFIP) to reduce the impact of flooding on private and public structures. The NFIP takes a multi-faceted approach that includes providing affordable insurance to property owners while also encouraging communities to adopt floodplain management regulations and invest in mitigation efforts. Moving forward, FEMA is developing options to address affordability challenges certain policyholders may face as the program moves towards charging full-risk policy premiums. Congress is expected to use the options to inform reauthorization of the NFIP. The Administration and Congress will need to balance affordability for policy holders and the fiscal solvency of the fund. Also, the NFIP is employing recent technological advancements to enhance flood risk mapping and understand the impacts of land-use and climate change.

Interoperability
The ability to seamlessly coordinate and communicate among all stakeholders is a key aspect of the National Response Framework and a direct consequence of incidents starting and ending at the local level. In order to allow all these stakeholders to respond effectively, the concept of interoperability is applied to the many resources and processes that FEMA supports and manages. Interoperability typically refers to communications such as wireless radio systems and language and communications protocols, but can also include other aspects of response such as the resource typing, training, and qualification of response personnel. For example, resource typing definitions establish a common language and defines a resource's (for equipment, teams, and units) minimum capabilities. NIMS resource typing definitions serve as the common language for the mobilization of resources. Moving forward, FEMA is investing in grants and exercises to practice and identify best practices for interoperability across all levels of government.

Disaster Workforce Structure
In order to be prepared for all hazards, the Department has made numerous advancements in the past decade to the disaster response workforce. The establishment of the Surge Capacity Force allows the capacity for the Department to deploy its employees in support of FEMA's existing workforce for a large-scale disaster such as Hurricane Sandy. The Department continues to innovate and learn from other agencies, such as developing a centralized reception, staging, onward movement, and integration process and collaborating with the Corporation for National and Community Service. However, FEMA is still at only 54 percent of its desired workforce structure. Moving forward, FEMA is conducting research to understand the barriers that prevent it from reaching its disaster workforce structure. Additionally, it is continuing to learn from other agencies such as Department of Defense's Time Phased Force Deployment Data.

Public Assistance
Resiliency and recovery from disasters is an essential piece of the Department's mission. FEMA's Public Assistance program plays a vital role in supporting state, local, and tribal governments with recovery by providing grants to remove debris and repair public infrastructure such as roads, schools, and hospitals. In certain cases, the program also encourages communities to not just rebuild to the previous structure but to build to stronger and smarter standards. Currently, FEMA covers 75 percent of the cost of rebuilding in most cases, but that share can go higher for large disasters. Moving forward, FEMA is currently exploring the possibility of a policy that could potentially recognize and reward states with strong and timely state and local adoption and enforcement of building codes; give additional credit to states using independent ratings of code governance based on the rating received; give additional recognition for required above-model code

standards for appropriate hazards; give states credit for resilience/mitigation programs; Agency programs can use these FEMA assessments in program decision-making.

Mature and Strengthen Homeland Security

The objectives for maturing and strengthening the Department were designed to bolster key activities and functions that support the success of our strategic missions and goals. Ensuring a shared awareness and understanding of risks and threats, building partnerships, strengthening our international enterprise structure, enhancing the use of science and technology, with a strong service and management team underpin our broad efforts to ensure our front-line operators have the resources they need to fulfill the missions of the Department.

Our mature and strengthen goals are:

- Integrate Intelligence, Information Sharing, and Operations;
- Enhance Partnerships and Outreach;
- Strengthen the DHS International Affairs Enterprise in Support of Homeland Security Missions;
- Conduct Homeland Security Research and Development;
- Ensure Readiness of Frontline Operators and First Responders; and
- Strengthen Service Delivery and Manage DHS Resources.

S&T's First Responder Group Exercise on Electronic Jamming Threats

DHS's Science and Technology (S&T) Directorate hosted a five-day, multi-agency operational exercise, from July 11-16, 2016, at the White Sands Missile Range in New Mexico to assess the impact of electronic jamming threats on first responder communications systems and mission response. The DHS S&T First Responder Electronic Jamming Exercise was a true unity of effort, with participants from DHS Components, which included ICE, CBP, USCG, and FEMA, as well as first responders from more than 40 federal, state, and local agencies, including Harris County, Texas, Office of Homeland Security and Emergency Management, and the Los Angeles County, California, Sheriff's Department.

During the exercise, responder organizations conducted emergency response scenarios while deliberate electronic jamming disabled some of their communications and navigation equipment. Responders worked to mitigate the effect of the jamming while observers collected information on their performance and mission response.

Results of the exercise are currently being analyzed to identify vulnerabilities in our Nation's responder communications networks and determine solutions; design electronic jamming mitigation technologies; identify gaps in first responder training; and provide recommendations to close them; inform policy on resilient and redundant communications requirements; and improve the ability of first responders to execute their missions in an electronic jamming environment. A final report will outline results, lessons learned, training recommendations, and mitigation strategies for first responders.

Looking Forward

Maturing and strengthening the Department and the entire homeland security enterprise—the collective efforts and shared responsibilities of federal, state, local, tribal and territorial, nongovernmental and private-sector partners, as well as individuals, families, and communities—is critical to the Department's success in carrying out its core missions and operational objectives.

Joint Requirements Council (JRC)

The JRC is designed to strengthen the Department's analytically-based strategic decision-making and maximize unity of effort by managing the requirements generation process, aligning requirement activities, and maturing processes to inform prioritized investment recommendations to the DHS leadership. A Component-driven and Component-led executive forum, the JRC's goal is to validate operational requirements to support capabilities aligned with strategic priorities. The JRC's goal is also to identify areas where DHS can reduce unnecessary duplication, overlap, and redundancy and prioritize capability options to improve the effectiveness and efficiency of operations. The JRC is piloting two ground-breaking DHS initiatives: 1) an annual Joint Assessment of Requirements (JAR) founded on cost-informed, feasibility and traceability criteria to prioritize emerging and existing program requirements; and 2) an annual Capability Gap Analysis (CGA) to provide senior leadership a comprehensive view of DHS's prioritized capability gaps to inform capability solution development and Research and Development investments. Future JRC plans include: 1) transitioning from establishing its structure and processes to maturing and strengthening execution and senior leader recommendations; 2) updating the JRC's strategic plan and strengthening the framework to focus on the JRC's efforts and measuring its success; 3) maturing its communication plan to inform JRC's strategy, tactics, goals and target audiences; 4) assessing the current portfolio team construct to ensure alignment with DHS priorities; 5) maturing the JAR process through 2018 and CGA process through 2019 with recommendations to inform DHS leadership investment decisions; 6) implementing the Joint Requirement Integration and Management System Knowledge Management Decision Support tool to record and track capability requirements documents during reviews, and provide a document repository; and 7) developing a requirements certification program.

Workforce Management Transformation

The Department began the development of the Workforce Management Transformation project in January 2015. The long-term objective of this effort is to have uniform processes and coordinated systems in place for managing and analyzing workforce resources. This includes: documenting and managing actual personnel levels; documenting and managing authorized personnel levels constrained by available funding; accurately pricing personnel costs to support budget formulation and out-year planning scenarios; personnel requirements modeling; and assessment of workforce gaps to inform and support leadership decision making, planning and budget formulation. Over the last year, the project team completed extensive research into the various workforce management and analysis offices/staffs of the Departments of Education, Interior, Energy, Transportation, Treasury, State, Defense, and Justice. This study reviewed their modeling approach and coverage, office structure, span of control, responsibilities, budget, and staffing to help delineate DHS's program scope. The team also developed guidance documents to define the responsibilities and objectives of a Manpower and Organization program office to be established in 2017, collected data for a Human Resource Information Technology system gap analysis requirements identification for a proposed position documentation system, and developed multiple documents to facilitate implementation of workforce management throughout the Department. Future goals include:

completion of permanent staffing of a Manpower and Organization Office within the Office of the Chief Human Capital Officer by end of FY 2018; the development a position documentation system for fielding in FY 2019; and the promulgation of consistent policy throughout the Department to manage manpower modeling and analysis, as well as the effective management of personnel authorizations and positions.

Financial Stewardship

In FY 2015, DHS continued to make substantive progress across the Components in its Financial Systems Modernization (FSM) initiative. FLETC completed a technical refresh of their accounting and budgeting system in the first quarter. USCG, TSA, and DNDO completed a global configuration phase with the Department of the Interior's Interior Business Center (DOI IBC), a federal shared service provider, in the second quarter. This phase determined the common baseline for the three Components on the DOI IBC financial management shared service. Following the global configuration phase, DNDO completed the implementation phase and went live on the financial solution in the first quarter of FY 2016. Moving forward, TSA and USCG implementations are scheduled in subsequent years. In addition, USCIS, S&T, NPPD, and the Management Directorate completed Phase I of the discovery phase with a federal shared service provider for financial management system services.

DHS Employs Innovative Approach to Critical Cybersecurity Workforce Requirement

One of the Secretary's primary goals for 2016 was to increase the Department's cybercapacity. In order to achieve this critical objective, in May of this year, the Chief Human Capital Officer, Chief Information Officer, and Chief Security Officer Councils jointly worked with representatives from every DHS Component to sponsor a DHS-wide Cyber and Technology Job Fair, which took place July 27-28. The Department identified more than 300 positions as mission critical hires across the department and posted announcements on USAJOBS, resulting in the receipt of more than 14,000 applications. A cross-department team designed the hiring event to provide an opportunity for both scheduled and walk-in candidates to be interviewed, and if selected, receive a tentative job offer and initiate the security clearance process prior to leaving the job fair.

As a result of this extensive collaboration across DHS, 326 well-qualified candidates have received tentative job offers. Typically, the federal hiring process takes four to six months from the time a hiring manager interviews a candidate until they actually come onboard. However, due to the innovative approach of initiating the security clearance process at the job fair, within the first 30 days following the hiring event, 103 candidates cleared security and 22 candidates began work. Acquiring the talent to fill these critical positions in such a streamlined manner has a significant impact on increasing the cybercapabilities within DHS, during a time when cyberthreats to our Nation are continuing to evolve and grow.

Priority Goals

Agency Priority Goals

In the FY 2016 Budget, the Obama Administration defined Agency Priority Goals (APG) which represent areas in which the Administration has identified opportunities to significantly improve near-term performance. The Department's FY 2016-2017 APGs are a set of focused initiatives that support the Agency's longer-term strategic framework. The goal statement for each of the Department's APGs is provided below. For more extensive information on our APGs, visit the public web site designed to make this information readily accessible to the public at: www.performance.gov.

Agency Priority Goal 1: Combatting Transnational Criminal Organizations ***(Aligns to Mission 2)***
Goal Statement: Decrease the ability of targeted transnational criminal organizations to conduct illicit activities impacting the southern border and approaches region of the United States. By September 30, 2017, actions by the DHS Joint Task Forces via synchronized component operations will result in the disruption and/or dismantlement of 15 percent of targeted transnational criminal organizations.

Agency Priority Goal 2: Enhance Federal Network Security ***(Aligns to Mission 4)***
Goal Statement: Improve federal network security by providing federal civilian executive branch agencies with the tools and information needed to diagnose, mitigate, and respond to cybersecurity threats and vulnerabilities. By September 30, 2017, DHS will deliver two phases of continuous diagnostics and mitigation tools to 100 percent of the participating federal civilian executive branch agencies so that they can monitor their networks.

Agency Priority Goal 3: Enhance Disaster Preparedness and Response ***(Aligns to Mission 5)***
Goal Statement: Enhance the Nation's ability to respond to and recover from a catastrophic disaster through whole community preparedness and partnership. By September 30, 2017, 70 percent of states and territories will achieve an intermediate or above proficiency toward meeting the targets established through their Threat and Hazard Identification and Risk Assessment.

Cross-Agency Priority Goals
Cross-Agency Priority (CAP) goals were established and are being led by the Administration with participation from the relevant federal agencies to address cross-cutting issues of importance to government stakeholders. Fifteen CAP goals were announced in the 2015 budget, comprised of seven mission-oriented and eight management-focused goals with a four-year time horizon.

Each of the CAP goals has goal leads, co-leads, and collaboration from other federal agencies. They are in various stages of implementing their project plans. For more information on both the mission and management CAP goals, see www.performance.gov for the latest information.

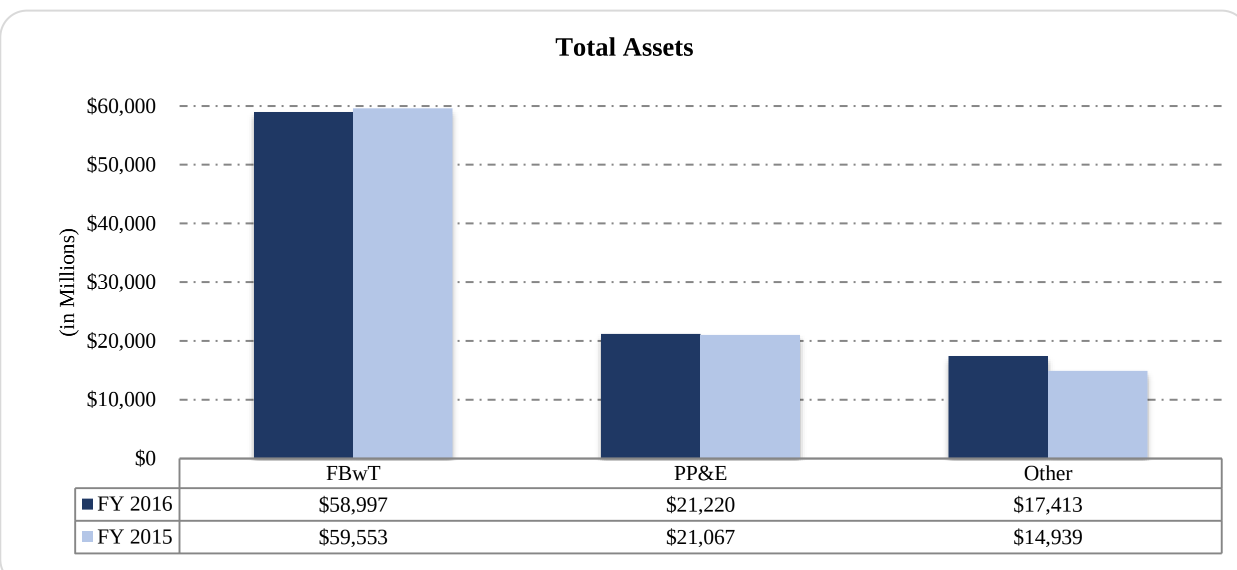
Financial Overview

The Department's budgetary resources were approximately $88.1 billion for FY 2016. The budget represents our plan for efficiently and effectively achieving the strategic objectives set forth by Secretary Johnson to carry out our mission and to ensure that the Department manages its operations within the appropriated amounts using budgetary controls. The Department prepares its Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on an accrual basis, in accordance with generally accepted accounting principles; meaning that economic events are recorded as they occur, regardless of when cash is received or disbursed. These financial statements provide the results of our operations and financial position, including long-term commitments and obligations. Budgetary accounting principles require recognition of the obligation of funds according to legal requirements, which in many cases occurs prior to the occurrence of a transaction under accrual basis. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds, and are reported in the Statement of Budgetary Resources. The Statement of Custodial Activity is prepared using the modified cash basis. With this method, revenue from cash collections is reported separately from receivable accruals, and cash disbursements are reported separately from payable accruals. KPMG LLP performed the audit of the Department's principal financial statements.

Balance Sheet

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

Assets – What We Own and Manage



Assets represent amounts owned or managed by the Department that can be used to accomplish its mission. As of September 30, 2016, the Department had $97.6 billion in assets, representing a

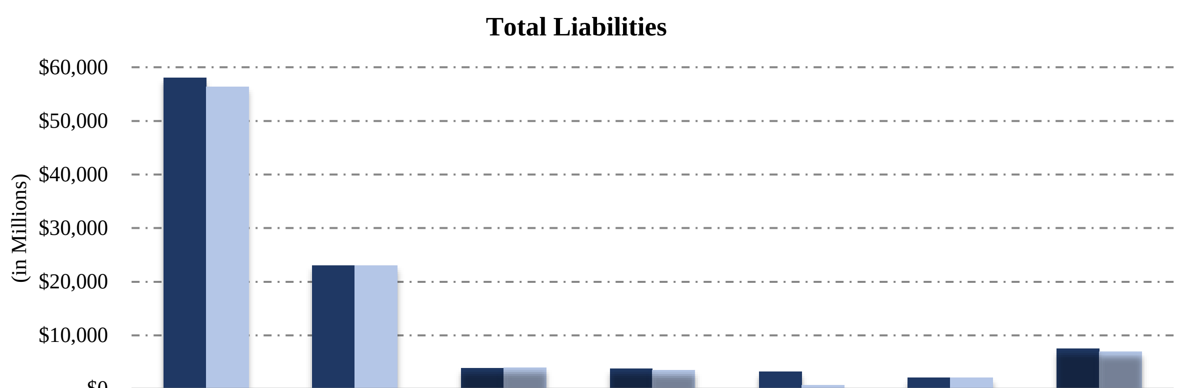
$2 billion increase from FY 2015. The increase is primarily due to accounts receivable due from British Petroleum for the Deepwater Horizon oil spill pursuant to the Consent Decree approved in April 2016. Additionally, FEMA investments for the National Flood Insurance Reserve Fund also increased, providing FEMA authority to draw upon the Treasury to make future payments related to flood claims.

Fund Balance with Treasury (FBwT), the Department's largest asset, comprises 60 percent of the total assets. FBwT balances are primarily appropriated, revolving, trust, deposit, receipt, and special funds remaining at the end of the fiscal year.

Property, Plant, and Equipment (PP&E) is the second largest asset, comprising 22 percent of total assets. The major items in this category include buildings and facilities, vessels, aircraft, construction in progress, and other equipment. In acquiring these assets, the Department either spent resources or incurred a liability to make payment at a future date; however, because these assets should provide future benefits to help accomplish the DHS mission, the Department reports these items as assets rather than expenses. PP&E is recorded at cost, and depreciated over the estimated useful life of the asset. PP&E is presented net of accumulated depreciation.

Other Assets represents 18 percent of total assets, and includes investments, accounts receivable, cash and other monetary assets, taxes, duties and trade receivables, direct loans, inventory and related property, and other.

Liabilities – What We Owe



	FEVB	Debt	Accounts Payable	Deferred Revenue and Advances	Insurance Liabilities	Accrued Payroll	Other
FY 2016	$58,028	$23,017	$3,868	$3,795	$3,196	$2,114	$7,492
FY 2015	$56,300	$23,020	$3,957	$3,500	$743	$2,136	$6,968

Liabilities are the amounts owed to the public or other federal agencies for goods and services provided but not yet paid for; to DHS employees for wages and future benefits; and for other liabilities. As of September 30, 2016, the Department reported approximately $101.5 billion in total liabilities. Total liabilities increased by approximately $4.9 billion in FY 2016; mainly due to the disaster relief that FEMA provided in response to significant flooding that impacted the southern region of the United States. Liabilities also grew based on amounts owed to current and former

DHS employees, most specifically related to participant growth and changes in actuarial assumptions for USCG post-employment medical and retirement benefits.

The Department's largest liability is for *Federal Employee and Veterans' Benefits*, representing 57 percent of total liabilities. The Department owes these amounts to current and past civilian and military personnel for pension and other post-employment benefits. The liability also includes medical costs for approved workers' compensation cases and an estimate for incurred but not yet reported workers' compensation costs. For more information, see Note 16 in the Financial Information section. This liability is not covered by current budgetary resources, and the Department will use future appropriations to cover these liabilities (see Note 14 in the Financial Information section).

Debt represents 23 percent of total liabilities, and results from Department of Treasury (Treasury) loans and related interest payable to fund FEMA's National Flood Insurance Program (NFIP) and Disaster Assistance Direct Loan Program. Given the current premium rate structure, FEMA will not be able to pay its debt from the premium revenue alone; therefore, legislation will need to be enacted to provide funding to repay the Bureau of the Fiscal Service. This is discussed further in Note 15 in the Financial Information section.

Accounts payable, representing 4 percent of total liabilities, includes amounts owed to other federal agencies and the public for goods and services received by the Department.

Deferred revenue and advances represents amounts received by the Department for goods or services that have not been fully rendered, which are 4 percent of total liabilities.

Insurance Liabilities consist of NFIP claim activity, and represents 3 percent of total liabilities.

Accrued payroll includes unpaid wages and benefits for current DHS employees, and represents 2 percent of total liabilities.

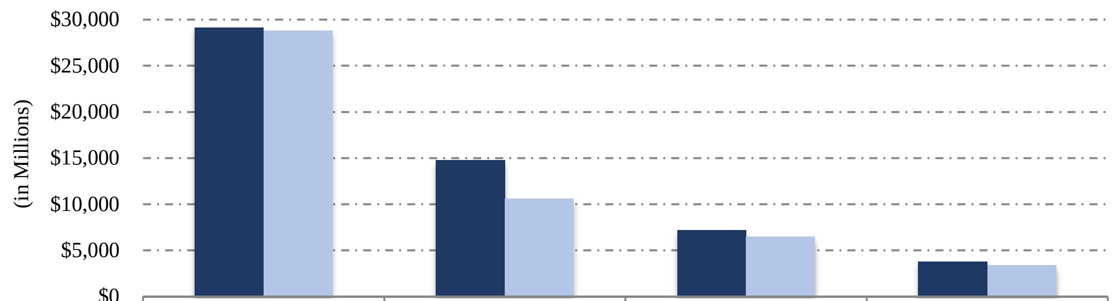
Other liabilities, comprising 7 percent of the Department's liabilities, includes amounts due to the Treasury's general fund, environmental liabilities, refunds and drawbacks, and other.

Statement of Net Cost

The Department operates under one unified mission: *With honor and integrity, we will safeguard the American people, our homeland, and our values*. The FY 2014-2018 Strategic Plan further details the Department's missions and focus area, which are grouped into four major missions in the Statement of Net Cost and related footnotes to allow the reader of the Statement of Net Cost to clearly see how resources are spent towards the common goal of a safe, secure, and resilient Nation.

Net cost of operations before gains and losses represents the difference between the costs incurred and revenue earned by DHS programs.

Net Cost of Operations Before Gains and Losses



	Foster a Safe and Secure Homeland	Strengthen National Preparedness and Resilience	Enforce and Administer Our Immigration Laws	Mature and Strengthen Homeland Security
FY 2016	$29,152	$14,751	$7,210	$3,792
FY 2015	$28,821	$10,593	$6,501	$3,366

Foster a Safe and Secure Homeland, includes strategic plan missions 1, *Prevent Terrorism and Enhance Security;* 2, *Secure and Manage Our Borders;* and 4, and *Safeguard and Secure Cyberspace.* This major mission involves the security and prevention aspects of the DHS strategic plan, representing 53 percent of the Department’s net cost. *Strengthen National Preparedness and Resilience* is mission 5 of the strategic plan and represents 27 percent of total net costs. *Enforce and Administer Our Immigration Laws* is mission 3 of the strategic plan and represents 13 percent of total net costs. *Mature and Strengthen Homeland Security* is the focus area of the DHS strategic plan and represents 7 percent of the Department’s net cost. Note 23 in the Financial Information section shows costs by responsibility segment aligned to the major missions.

The Department’s net cost of operations before gains and losses increased by approximately $5.6 billion in FY 2016; primarily due to recovery efforts related to flooding from severe storms in Oklahoma, Texas, Mississippi, and Louisiana.

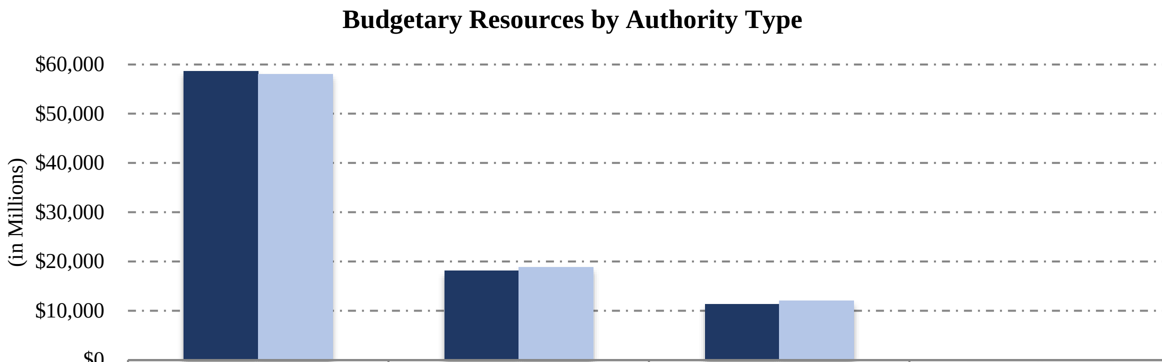
During FY 2016, the Department earned approximately $14.5 billion in exchange revenue. Exchange revenue arises from transactions in which the Department and the other party receive value and that are directly related to departmental operations. The Department also collects non-exchange duties, taxes, and fee revenue on behalf of the Federal Government. This non-exchange revenue is presented in the Statement of Custodial Activity or Statement of Changes in Net Position, rather than the Statement of Net Cost.

Statement of Changes in Net Position

Net position represents the accumulation of revenue, expenses, budgetary, and other financing sources since inception, as represented by an agency’s balances in unexpended appropriations and cumulative results of operations on the Statement of Changes in Net Position. Financing sources increase net position and include, but are not limited to, appropriations, user fees, and excise taxes. The net costs discussed in the section above as well as transfers to other agencies decrease net position. Total net position is $(3.9) billion. The Department’s net position is negative because of significant expenses related to NFIP, as well as pension liabilities for USCG and USSS—the Department receives funding for these liabilities for the current year only. Total net position decreased by approximately $2.8 billion from FY 2015. The decrease in net position is primarily the result of additional costs in FY 2016 related to FEMA disaster relief.

Statement of Budgetary Resources

This statement provides information on the status of the approximately $88.1 billion in budgetary resources available to the Department during FY 2016.



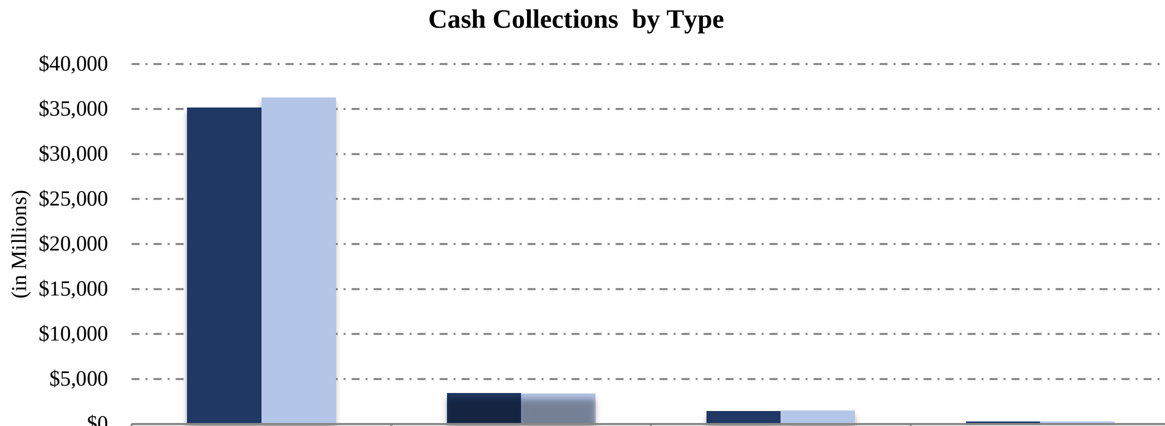
	Appropriations	Unobligated balance from prior year budget authority, net	Spending Authority from offsetting collections	Borrowing Authority
FY 2016	$58,644	$18,113	$11,355	$1
FY 2015	$58,088	$18,924	$12,051	$11

The authority was derived from appropriations of $58.6 billion, $18.1 billion in authority carried forward from FY 2015, and $11.4 billion in collections. Budgetary resources decreased approximately $1 billion from FY 2015 primarily as a result of the Department's focused efforts to improve spending efficiency, resulting in the continued decrease of unobligated budgetary resources at both the beginning and end of the fiscal year.

As of September 30, 2016, $13.5 billion of the $88.1 billion was not yet obligated. The $13.5 billion represents $10.3 billion in apportioned funds available for future use, and $3.2 billion in unapportioned and expired funds. Of the total budget authority available, the Department incurred a total of $74.6 billion in obligations from salaries and benefits, purchase orders placed, contracts awarded, or similar transactions. These obligations will require payments during the same or future period.

Statement of Custodial Activities

This statement presents the revenue collected by the Department on behalf of others, and the disposition of that revenue to the recipient entities. Non-exchange revenue is either retained by the Department to further its mission or transferred to Treasury's General Fund and other federal agencies.



	Custom Duties	Excise Tax	User Fees	Other
FY 2016	$35,142	$3,430	$1,402	$282
FY 2015	$36,265	$3,382	$1,494	$263

Custom duties collected by CBP account for 87 percent of total cash collections. The remaining 13 percent is comprised of excise taxes, user fees, and various other fees. An example of non-exchange revenue for the Department includes user fees that CBP collects on behalf of the Federal Government. These fees are considered non-exchange because they are a result of the Federal Government's sovereign powers rather than as a result of providing goods or services for a fee. Total cash collections decreased by approximately $1.1 billion in FY 2016 because of a lower volume of imports than in prior years.

Stewardship Assets and Investments

The Department's stewardship assets are maintained by the USCG, CBP, USCIS, TSA, FEMA, S&T, USSS, and FLETC. These heritage assets primarily consist of documents, historical artifacts, immigration and naturalization files, artwork, buildings, and structures. A heritage asset is any personal property that is retained by DHS because of its historic, cultural, educational, or artistic value as opposed to its current usefulness to carrying out the mission of the Department.

When a heritage asset is predominantly used for general government operations, the heritage asset is considered a multi-use heritage asset. The USCG has over 100 memorials, recreational areas, and other historical areas designated as multi-use heritage assets. CBP has four historical buildings and structures located in Puerto Rico, and FEMA has one training facility that is used by the Emergency Management Institute and the U.S. Fire Administration's National Fire Academy for training in Emmitsburg, Maryland.

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 to highlight the extent of investments that are made for long-term benefits. Included are investments in research and development, human capital, and non-federal physical property.

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 entity in accordance with generally accepted accounting principles 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 Federal Government, a sovereign entity.

Other Key Regulatory Requirements

See the Other Information section for Prompt Payment Act, Debt Collection Improvement Act of 1996, and Biennial User Charges Reviews information.

Management Assurances

The Federal Managers' Financial Integrity Act, Federal Financial Management Improvement Act, Department of Homeland Security Financial Accountability Act, and Digital Accountability and Transparency Act of 2014

DHS management is responsible for establishing, maintaining, and assessing internal control to provide reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act of 1982 (31 USC 3512, Sections 2 and 4) and the Federal Financial Management Improvement Act of 1996 (Pub. L. 104-208), as prescribed by the U.S. Government Accountability Office (GAO) Standards for Internal Control in the Federal Government known as the Green Book, are met. In addition, the Department of Homeland Security Financial Accountability Act (Pub. L. 108-330) requires a separate management assertion and an audit opinion on the Department's internal control over financial reporting.

In FY 2014, the GAO revised the Green Book effective beginning FY 2016 and for the Federal Managers' Financial Integrity Act reports covering that year. The Green Book provides managers the criteria for an effective internal control system, organized around internal control components, principles, and attributes.

In FY 2016, the Office of Management and Budget (OMB) revised Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The revisions emphasize the integration of risk management and internal controls within existing business practices across an Agency. Updates to the Circular are effective for FY 2016 with the implementation of enterprise risk management requirements effective in FY 2017. Circular A-123, Appendix A, Internal Control over Financial Reporting remain in effect. Since Circular No. A-123 became effective 2006, DHS has worked extensively to establish, maintain, and assess internal controls. The Department has made considerable improvements in internal control over operations, reporting, and compliance through the extensive work of staff and management at Headquarters and in the Components. In FY 2016, the USCG demonstrated significant progress in correcting previously identified internal control deficiencies over its real property. The Department remains dedicated to fully remediating operating and financial reporting controls conditions, which supports the sustainment of its financial statement opinion and achievement of an opinion over internal control over financial reporting in the near future.

In FY 2013, the Department achieved a major milestone when it received its first unmodified opinion on all its financial statements and provided a second-consecutive modified assurance over financial reporting controls. The Department's sustained these significant achievements in FY 2014 and FY 2015. In FY 2015, the Department reduced the four remaining material weaknesses to three by remediating Budgetary Accounting to a significant deficiency and achieved an unmodified opinion on all its financial statements. Although the Department has work to do, DHS is poised and focused on building off of its FY 2016 successes in USCG real property and improving financial management and information technology in order to remediate the remaining material weaknesses in Financial Reporting, Property, Plant, and Equipment, and Information Technology.

In accordance with Circular A-123, DHS performs assessments over the effectiveness of its internal controls. The results of these assessments provide management with an understanding of the effectiveness and efficiency of programmatic operations, reliability of financial reporting, and compliance with laws and regulations. Management performs an analysis on the pervasiveness and materiality over any identified deficiencies to determine their impact. Based on the results of these assessments, the Secretary provides assurances over the Department’s internal controls in the annual assurance statement.

Any deficiency identified as a material weakness within internal control over financial reporting is defined as a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. To identify material weaknesses and non-compliance, management used the following criteria:

- Significant enough to report outside the Agency as a material weakness;
- Impacts the operating effectiveness of Entity-Level Controls;
- 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;
- Noncompliance with laws and regulations; and
- Financial management systems conformance to government-wide systems requirements.

DHS instituted an Accountability Structure, which includes a Senior Management Council (SMC), the Risk Management and Assurance (RM&A) Division, and a Senior Assessment Team (SAT). The SMC approves the level of assurances for the Secretary’s consideration and is comprised of the Department’s Under Secretary for Management, Chief Financial Officer, Chief Readiness Support Officer, Chief Human Capital Officer, Chief Information Officer, Chief Information Security Officer, Chief Security Officer, and Chief Procurement Officer.

The RM&A Division seeks to integrate and coordinate internal control assessments with other internal control related activities and incorporates results from all DHS lines of business to address crosscutting internal control issues. Finally, the SAT, led by the Chief Financial Officer and overseen by RM&A, is comprised of senior-level financial managers assigned to carry out and direct Component-level internal control over financial reporting assessments.

Component Senior Leadership provided assurance statements to the SAT that serve as the primary basis for the Secretary’s assurance statements. These assurance statements are also based on information gathered from various sources including management-initiated internal control assessments, program reviews, and evaluations. In addition, these statements consider the results of reviews, audits, inspections, and investigations performed by the DHS OIG and GAO.

In addition to performing an analysis of the Department’s compliance with FMFIA, FFMIA, and the DHS FAA, management also considered DHS’s compliance with recently enacted laws. On May 9, 2014, President Obama signed the Digital Accountability and Transparency Act of 2014 (DATA Act) into law. By May of 2017 the law requires the Department to comply with the requirements outlined in the Act in accordance with guidance received from the Department of Treasury (Treasury)/OMB. DHS will be required to report obligations by appropriation, program activity, object class, and award. This effort required enterprise-wide coordination and collaboration to modify business processes and systems to ensure full compliance. In FY 2016 the Department developed the initial technical solution and conducted two pilots successfully demonstrating the ability to link financial and award data. In August 2016, DHS submitted the DHS Implementation Plan Update to OMB as required. In FY 2017, DHS will continue to produce, test and validate data improving the quality to ensure timely and accurate data reporting to meet and comply with the May 2017 DATA Act deadline.

Secretary's Assurance Statement

November 14, 2016

The Department of Homeland Security is committed to a culture of integrity, accountability, fiscal responsibility, and transparency. The Department's management team is responsible for establishing and maintaining effective internal control over the three internal control objectives: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.

In accordance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Department of Homeland Security Financial Accountability Act, I directed an evaluation of internal control at the Department in effect during the Fiscal Year (FY) ending September 30, 2016. This evaluation was conducted in accordance with the GAO Green Book and Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The Department provides reasonable assurance that the objectives of FMFIA, Section 2 over internal control over operations have been achieved.

The Department has completed its FY 2016 evaluation of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with OMB Circular A-123, Appendix A, and Departmental requirements. The Department provides reasonable assurance that our internal control over financial reporting was operating effectively as of September 30, 2016, with the exception of the three business areas: 1) Financial Reporting; 2) Property, Plant, and Equipment; and 3) Information Technology Controls and Systems Functionality, where material weaknesses have been identified and remediation is in process, as further described in the Other Information Section. In addition, DHS financial management systems do not fully conform to the objectives of FMFIA, Section 4, and the Federal Financial Management Improvement Act of 1996 (FFMIA).

The Department will continue its efforts to strengthen DHS-wide internal control systems and demonstrate their effectiveness through routine evaluation of business processes. Through sound and repeatable financial management practices, we will provide unmodified assurance and achieve a clean audit opinion on internal control over financial reporting, as required by law and regulation.

In addition to our commitment to maturing DHS's internal control ecosystem, the Department is executing incremental Component-level financial system modernization projects. The DHS financial systems modernization concept streamlines and adjusts its IT financial portfolio so that the DHS Chief Financial Officer and Components have the flexibility to meet their mission and the changing demands for financial visibility and accountability. DHS is leveraging the lessons learned from this shared services implementation, reducing risk in future migrations through deliberative approaches to resource management, business process re-engineering, change management, and scheduling rigor and oversight. In FY 2016, the Department migrated the DHS Domestic Nuclear Detection Office to a shared service provider, achieving a significant system modernization milestone. Financial system modernization will deliver functionality that enables full compliance with FMFIA, Section 4 and FFMIA.

As evidenced by our fourth consecutive unmodified opinion on the Department's financial statements, the Department remains committed to financial stewardship by providing accurate, complete, and timely information to stakeholders for mission critical decisions. We remain focused on implementing sustainable internal control practices to eliminate the remaining material weaknesses and achieve an unmodified audit opinion on internal control over financial reporting.

We will continue our pledge that taxpayer dollars are managed with integrity, diligence, and accuracy, and that the systems and processes used for all aspects of financial management demonstrate the highest level of accountability and transparency.

Sincerely,

Jeh Charles Johnson

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires federal agencies to implement and maintain financial management systems that comply substantially with:

- Federal financial management system requirements;
- Applicable federal accounting standards; and
- The U.S. Standard General Ledger at the transaction level.

In assessing compliance with FFMIA, the Department uses OMB guidance and considers the results of the OIG's annual financial statement audits and Federal Information Security Modernization Act (FISMA) compliance reviews. As reported in the Secretary's Management Assurance Statements, significant system improvement efforts are in progress to modernize, certify, and accredit all financial management systems to conform to government-wide requirements.

Financial Management Systems

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

The Department adopted a decentralized strategy and will modernize individual Component financial systems, as needed. This incremental approach is consistent with OMB guidance and will allow the Department to leverage existing shared service providers' proven systems and processes in concert with DHS-wide policy and standards for implementations, instead of making costly investments in new systems. The Department is working to ensure programs are planned and executed to meet reporting requirements, minimize costs for financial operations, improve compliance with financial management standards such as FFMIA, and make certain that financial management systems have internal controls in place to support the DHS mission.

In FY 2016, the Department achieved a major system modernization milestone when DNDO migrated to the DOI IBC solution. DHS is leveraging the lessons learned from this shared services implementation, reducing risk in future migrations through deliberative approaches to resource management, business process re-engineering, change management, and scheduling rigor and oversight. In FY 2017, the Department will continue its efforts towards modernizing financial systems across the Department. Components within DHS are at different milestones in their modernization timeline, for example components like ICE and their serviced components are early in discovery, and TSA and USCG are in various planning phases. FEMA has also entered the very early stages of their planned future modernization.

Through the FSM initiative, the Department is working to improve existing financial systems to better meet FFMIA requirements. Components considering a shared service provider for their financial management system modernization will consult OMB A-123, Appendix D for the minimum requirements an external provider must demonstrate including FFMIA requirements.

Federal Information Security Modernization Act of 2014

FISMA provides a framework for ensuring effectiveness of security controls over information resources that support federal operations and assets, and provides a statutory definition for information security.

The FY 2015 FISMA report, OIG-16-08, Revised, Evaluation of DHS' Information Security Program for Fiscal Year 2015, cited six open recommendations. The Office of the Chief Information Security Officer (OCISO) implemented several corrective actions to close the recommendations from OIG-16-08. These actions included improving OCISO's recently established process of facilitating quarterly meetings between the Deputy Under Secretary of Management, DHS CIO and CISO, and Component Executive Leadership. The quarterly discussions focused on a Component's status in achieving FISMA compliance targets and explaining lags in progress and planned actions to meet agreed upon targets timely. DHS launched a formal IT Weakness Remediation project. This project included working with the Components to develop effective weakness remediation plans, improving status reporting, and providing bi-weekly progress of plans of action and milestones. The Department also implemented additional database checks to ensure that the data used to generate the DHS FISMA monthly scorecards is consistent with the data in Component feeder systems. To further accomplish this, OCISO verifies the data with the Components prior to finalizing the monthly scorecard. In April 2016, the Office of Inspector General's evaluation of corrective actions taken on OIG-16-08 reported that four of the six recommendations issued were closed.

The Office of Inspector General's FY 2016 FISMA audit is pending completion at the time of this report's issuance. As such, the audit recommendations and Management's response to the recommendations will be provided when made available.

Financial Information

The ***Financial Information*** section demonstrates our commitment to effective stewardship over the funds DHS receives to carry out its mission, including compliance with relevant financial management legislation. It includes the Department's ***Financial Statements***—the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources and Statements of Custodial Activity—as well as the accompanying ***Notes to the Financial Statements***. It also includes the ***Independent Auditors' Report*** on the Department's Financial Statements and accompanying Notes, provided by KPMG LLP.

Message from the Chief Financial Officer

November 14, 2016

I am pleased to join Secretary Jeh Johnson in presenting the Department of Homeland Security (DHS) Fiscal Year (FY) 2016 Agency Financial Report (AFR). Our commitment to accountability and transparency in DHS financial performance is evidenced as DHS earned the fourth consecutive unmodified (clean) audit opinion on our financial statements. The Department also provided modified assurance that internal control over financial reporting was operating effectively as we continue achieving interim successes towards our objective of obtaining an unmodified (clean) audit opinion on our internal control over financial reporting.

Our financial management team across DHS invests considerable effort each year to produce a streamlined, effective AFR that communicates to our citizens and stakeholders the Department's performance and financial information. Our success was recognized again this year when the Association of Government Accountants awarded the Department our third consecutive Certificate of Excellence in Accountability Reporting for our FY 2015 AFR.

The Department realizes the value of quality, robust controls and actively incorporates those controls in our work across DHS. Leadership across DHS understands that to move toward an unmodified internal control over financial reporting opinion, we must integrate internal controls into all key DHS processes and systems. We have taken a holistic, risk-based look at the maturity of our enterprise and Components, and have identified remediation focus areas to address the Department's remaining material weaknesses. Through these focus areas, the Department will build on the FY 2016 progress made in correcting internal control issues and finalize mission action plans in the first quarter of FY 2017.

Clear and accurate reporting, and continued focus on enhancing our internal controls are just two examples of the ways we have improved financial management at DHS over the past year. Other significant accomplishments include laying the groundwork for the greatly simplified Common Appropriations Structure and successful migration of our first DHS Component to a federal shared service provider—all with the objective of increasing data quality, standardization, and robustness of information to support our DHS mission.

After tremendous effort and cooperation across headquarters and all our Components, DHS recently transitioned to the Common Appropriations Structure in FY 2017. This new budgeting approach will provide a simplified, consistent structure that allows the Department to compare like missions and activities in future budget requests, as well as monitoring execution. The Department went from over 70 different appropriation types down to four common appropriations for all Components. The Common Appropriations Structure has been one of Secretary Johnson's Unity of Effort priorities for the past two years regarding strengthening budgeting and acquisition, and it is the next step in the maturation of the Department.

Financial systems modernization is also critical to improve the management and operations of the Department. In FY 2016, the Domestic Nuclear Detection Office (DNDO) was the first Component to migrate to a federal shared service provider. We are using DNDO's successes and lessons learned to help other Components move to a modernized system. Currently, the Transportation Security Administration, U.S. Coast Guard, Immigration and Customs Enforcement, and Federal Emergency Management Agency are in the process of modernizing their financial systems. Although modernization will take years to accomplish, it will enable automated, real-time, and transparent data. All these improvements build on our foundation of successful, repeatable business practices. We will eliminate the need for numerous manual workarounds and ensure the accuracy of our financial, budget, and programming information.

The Department's AFR is our principal statement of accountability to the American people, the President of the United States, and the United States Congress. This section of the AFR provides detailed information about DHS's financial statements, and gives a comprehensive view of the Department's financial activities. I am confident that we have the dedication and leadership in place to continue our forward momentum and move DHS toward an unmodified internal control opinion. We are dedicated to be responsible stewards of the taxpayer dollars appropriated to our Department and we stand firm in our commitment to sound financial management practices in support of the Homeland Security mission.

Sincerely,

Chip Fulghum
Deputy Under Secretary for Management and
Chief Financial Officer

Introduction

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

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

1. The Consolidated **Balance Sheets** present those resources owned or managed by the Department of Homeland Security that represent future economic benefits (assets), amounts owed by DHS that will require payments from those resources or future resources (liabilities), and residual amounts retained by DHS comprising the difference (net position) as of September 30, 2016 and 2015.
2. The Consolidated **Statements of Net Cost** present the net cost of DHS operations for the fiscal years that ended on September 30, 2016 and 2015. DHS net cost of operations is the gross cost incurred by DHS less any exchange revenue earned from DHS activities and any gains or losses from assumption changes on pensions, other retirement benefits (ORB), and other post-employment benefits (OPEB).
3. The Consolidated **Statements of Changes in Net Position** present the change in the Department's net position resulting from the net cost of DHS operations, budgetary financing sources, and other financing sources for the fiscal years that ended on September 30, 2016 and 2015.
4. The Combined **Statements of Budgetary Resources** present how and in what amounts budgetary resources were made available to the Department during fiscal years 2016 and 2015, the status of these resources at September 30, 2016 and 2015, the changes in the obligated balance, and outlays of budgetary resources for the fiscal years that ended on September 30, 2016 and 2015.
5. The Consolidated **Statements of Custodial Activity** present the disposition of custodial revenue collected and disbursed by the Department on behalf of other recipient entities for the fiscal years that ended on September 30, 2016 and 2015.
6. The **Notes to the Financial Statements** provide detail and clarification for amounts on the face of the financial statements as of September 30, 2016 and 2015.

Financial Statements

Department of Homeland Security
Consolidated Balance Sheets
As of September 30, 2016 and 2015
(In Millions)

	2016	2015
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$ 58,997	$ 59,553
Investments, Net (Note 5)	8,060	6,498
Accounts Receivable (Note 6)	290	323
Other (Note 13)	543	806
Total Intragovernmental	**$ 67,890**	**$ 67,180**
Cash and Other Monetary Assets (Note 4)	193	24
Accounts Receivable, Net (Note 6)	2,629	1,324
Taxes, Duties, and Trade Receivables, Net (Note 7)	3,042	3,245
Direct Loans, Net (Note 8)	29	18
Inventory and Related Property, Net (Note 9)	1,936	2,016
General Property, Plant, and Equipment, Net (Note 11)	21,220	21,067
Other (Note 13)	691	685
TOTAL ASSETS	**$ 97,630**	**$ 95,559**
Stewardship Property, Plant, and Equipment (Note 12)		
LIABILITIES (Note 14)		
Intragovernmental		
Accounts Payable	$ 1,827	$ 1,891
Debt (Note 15)	23,017	23,020
Other (Note 18)		
Due to the General Fund	3,098	3,361
Accrued FECA Liability	402	385
Other	495	245
Total Intragovernmental	**$ 28,839**	**$ 28,902**
Accounts Payable	2,041	2,066
Federal Employee and Veterans' Benefits (Note 16)	58,028	56,300
Environmental and Disposal Liabilities (Note 17)	454	469
Other (Notes 18, 19, 20, and 21)		
Accrued Payroll and Benefits	2,114	2,136
Deferred Revenue and Advances from Others	3,795	3,500
Insurance Liabilities	3,196	743
Refunds and Drawbacks	190	166
Other	2,853	2,342
Total Liabilities	**$ 101,510**	**$ 96,624**

Commitments and Contingencies (Note 21)

(Continued)

Department of Homeland Security
Consolidated Balance Sheets
As of September 30, 2016 and 2015
(In Millions)

	2016	2015
NET POSITION		
Unexpended Appropriations		
Unexpended Appropriations-Other Funds	$ 45,027	$ 46,485
Cumulative Results of Operations		
Cumulative Results of Operations-Funds from Dedicated Collections (Note 22)	(13,840)	(13,577)
Cumulative Results of Operations-Other Funds	(35,067)	(33,973)
Total Net Position	**$ (3,880)**	**$ (1,065)**
TOTAL LIABILITIES AND NET POSITION	**$ 97,630**	**$ 95,559**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statement of Net Cost
For the Years Ended September 30, 2016 and 2015
(In Millions)

Major Missions (Note 23)	**2016**	**2015**
Foster a Safe and Secure Homeland		
Gross Cost	$ 35,061	$ 34,362
Less Earned Revenue	(5,909)	(5,541)
Net Cost	**29,152**	**28,821**
Enforce and Administer Our Immigration Laws		
Gross Cost	11,133	10,211
Less Earned Revenue	(3,923)	(3,710)
Net Cost	**7,210**	**6,501**
Strengthen National Preparedness and Resilience		
Gross Cost	19,304	14,750
Less Earned Revenue	(4,553)	(4,157)
Net Cost	**14,751**	**10,593**
Mature and Strengthen Homeland Security		
Gross Cost	3,906	3,475
Less Earned Revenue	(114)	(109)
Net Cost	**3,792**	**3,366**
Total Department of Homeland Security		
Gross Cost	69,404	62,798
Less Earned Revenue	(14,499)	(13,517)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	54,905	49,281
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes (Note 16)	234	4,046
NET COST OF OPERATIONS	**$ 55,139**	**$ 53,327**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2016
(In Millions)

	2016			
	Funds from Dedicated Collections	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations				
Beginning Balances	$ (13,577)	$ (33,973)	$ -	$ (47,550)
Budgetary Financing Sources				
Appropriations Used	-	47,247	-	47,247
Non-exchange Revenue	3,293	2	-	3,295
Donations and Forfeitures of Cash and Cash Equivalents	1	-	-	1
Transfers In/Out without Reimbursement	(3,358)	3,457	-	99
Other Financing Sources				
Donations and Forfeitures of Property	-	1	-	1
Transfers In/Out without Reimbursement	(105)	104	-	(1)
Imputed Financing	175	1,340	182	1,333
Other	3,211	(1,404)	-	1,807
Total Financing Sources	3,217	50,747	182	53,782
Net Cost of Operations	(3,480)	(51,841)	(182)	(55,139)
Net Change	(263)	(1,094)	-	(1,357)
Cumulative Results of Operations	**(13,840)**	**(35,067)**	**-**	**(48,907)**
Unexpended Appropriations				
Beginning Balance	-	46,485	-	46,485
Budgetary Financing Sources				
Appropriations Received	-	48,577	-	48,577
Appropriations Transferred In/Out	-	(659)	-	(659)
Other Adjustments	-	(2,129)	-	(2,129)
Appropriations Used	-	(47,247)	-	(47,247)
Total Budgetary Financing Sources	-	(1,458)	-	(1,458)
Total Unexpended Appropriations	**-**	**45,027**	**-**	**(45,027)**
NET POSITION	**$ (13,840)**	**$ 9,960**	**$ -**	**$ (3,880)**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2015
(In Millions)

	2015			
	Funds from Dedicated Collections	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations				
Beginning Balances	$ (15,537)	$ (28,959)	$ -	$ (44,496)
Budgetary Financing Sources				
Appropriations Used	-	45,452	-	45,452
Non-exchange Revenue	2,127	1	-	2,128
Donations and Forfeitures of Cash and Cash Equivalents	229	25	-	254
Transfers In/Out without Reimbursement	(3,420)	2,905	-	(515)
Other Financing Sources				
Transfers In/Out without Reimbursement	(98)	64	-	(34)
Imputed Financing	135	1,314	163	1,286
Other	3,215	(1,513)	-	1,702
Total Financing Sources	2,188	48,248	163	50,273
Net Cost of Operations	(228)	(53,262)	(163)	(53,327)
Net Change	1,960	(5,014)	-	(3,054)
Cumulative Results of Operations	**(13,577)**	**(33,973)**	**-**	**(47,550)**
Unexpended Appropriations				
Beginning Balances	-	46,838	-	46,838
Budgetary Financing Sources				
Appropriations Received	-	46,436	-	46,436
Appropriations Transferred In/Out	-	441	-	441
Other Adjustments	-	(1,778)	-	(1,778)
Appropriations Used	-	(45,452)	-	(45,452)
Total Budgetary Financing Sources	-	(353)	-	(353)
Total Unexpended Appropriations	**-**	**46,485**	**-**	**46,485**
NET POSITION	**$ (13,577)**	**$ 12,512**	**$ -**	**$ (1,065)**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2016 and 2015
(In Millions)

	2016		2015	
	Budgetary	**Non-Budgetary Credit Reform Financing Accounts**	**Budgetary**	**Non-Budgetary Credit Reform Financing Accounts**
BUDGETARY RESOURCES				
Unobligated Balance Brought Forward, October 1	$ 16,169	$ 53	$ 17,795	$ 37
Recoveries of Prior Year Unpaid Obligations	2,531	13	2,759	-
Other Changes in Unobligated Balance	(652)	(1)	(1,667)	-
Unobligated Balance from Prior Year Budget Authority, Net	18,048	65	18,887	37
Appropriations	58,644	-	58,088	-
Borrowing Authority (Note 25)	-	1	-	11
Spending Authority from Offsetting Collections	11,366	(11)	12,005	46
TOTAL BUDGETARY RESOURCES	**$ 88,058**	**$ 55**	**$ 88,980**	**$ 94**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (Note 24)	$ 74,602	$ 33	$ 72,811	$ 41
Unobligated Balance, End Of Year				
Apportioned, Unexpired	10,263	22	12,900	53
Exempt from Apportionment, Unexpired	2	-	2	-
Unapportioned, Unexpired	1,538	-	1,437	-
Unexpired Unobligated Balance, End of Year	11,803	22	14,339	53
Expired Unobligated Balance, End of Year	1,653	-	1,830	-
Total Unobligated Balance, End of Year	13,456	22	16,169	53
TOTAL BUDGETARY RESOURCES	**$ 88,058**	**$ 55**	**$ 88,980**	**$ 94**
CHANGE IN OBLIGATED BALANCE				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 43,759	$ 83	$ 40,211	$ 80
New Obligations and Upward Adjustments	74,602	33	72,811	41
Outlays, Gross	(69,559)	(36)	(66,494)	(38)
Actual Transfers, Unpaid Obligations, Net	(10)	-	(10)	-
Recoveries of Prior Year Unpaid Obligations	(2,531)	(13)	(2,759)	-
Unpaid Obligations, End of Year	46,261	67	43,759	83
Uncollected Payments:				
Uncollected Customer Payments From Federal Sources, Brought Forward, October 1	(2,707)	(76)	(1,692)	(72)
Change in Uncollected Customer Payments from Federal Sources	227	14	(1,015)	(4)
Uncollected Customer Payments from Federal Sources, End of Year	(2,480)	(62)	(2,707)	(76)

(Continued)

Department of Homeland Security
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2016 and 2015
(In Millions)

	2016		2015	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Obligated Balance, Start of Year, Net	**$ 41,052**	**$ 7**	**$ 38,519**	**$ 8**
Obligated Balance, End of Year, Net	**$ 43,781**	**$ 5**	**$ 41,052**	**$ 7**
BUDGET AUTHORITY AND OUTLAYS, NET				
Budget Authority, Gross	$ 70,010	$ (10)	$ 70,093	$ 57
Actual Offsetting Collections	(11,731)	(8)	(11,231)	(115)
Change in Uncollected Customer Payments from Federal Sources	227	14	(1,015)	(4)
Recoveries of Prior Year Paid Obligations	144	-	127	-
Budget Authority, Net	**$ 58,650**	**$ (4)**	**$ 57,974**	**$ (62)**
Outlays	$ 69,559	$ 36	$ 66,494	$ 38
Actual Offsetting Collections	(11,731)	(8)	(11,231)	(115)
Outlays, Net	57,828	28	55,263	(77)
Distributed Offsetting Receipts	(10,911)	-	(9,978)	-
Agency Outlays, Net	**$ 46,917**	**$ 28**	**$ 45,285**	**$ (77)**

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statements of Custodial Activity
For the Years Ended September 30, 2016 and 2015
(In Millions)

	2016	2015
Revenue Activity (Note 29)		
Sources of Cash Collections:		
Duties	$ 35,142	$ 36,265
User Fees	1,402	1,494
Excise Taxes	3,430	3,382
Fines and Penalties	65	58
Interest	22	21
Miscellaneous	195	184
Total Cash Collections	40,256	41,404
Accrual Adjustments, Net	(181)	86
Total Custodial Revenue	**40,075**	**41,490**
Disposition of Collections		
Transferred to Federal Entities:		
U.S. Department of Agriculture	10,733	11,131
Treasury General Fund Accounts	26,169	25,817
U.S. Army Corps of Engineers	1,310	1,429
Other Federal Agencies	40	35
Transferred to Non-Federal Entities	87	(13)
(Increase)/Decrease in Amounts Yet to be Transferred	(131)	110
Refunds and Drawbacks (Notes 18 and 29)	1,867	2,981
Total Disposition of Custodial Revenue	**40,075**	**41,490**
Net Custodial Activity	**$ -**	**$ -**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Table of Contents for Notes to the Financial Statements

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Department was established by the Homeland Security Act of 2002 (Pub. L. 107-296), dated November 25, 2002, as an executive department of the U.S. Federal Government. The Department leads efforts to achieve a safe, secure, and resilient homeland by countering terrorism and enhancing our security; securing and managing our borders; enforcing and administering our immigration laws; protecting our cybernetworks and critical infrastructure; and ensuring resilience from disasters. In addition, the Department contributes in many ways to elements of broader United States national and economic security while also working to mature and strengthen the Department and the homeland security enterprise. The Department includes the following financial reporting Components[1]:

- **U.S. Customs and Border Protection (CBP)**
- **U.S. Coast Guard (USCG)**
- **U.S. Citizenship and Immigration Services (USCIS)**
- **Federal Emergency Management Agency (FEMA)**
- **Federal Law Enforcement Training Centers (FLETC)**
- **National Protection and Programs Directorate (NPPD)**
- **U.S. Immigration and Customs Enforcement (ICE)**
- **Office of Health Affairs (OHA)**
- **Departmental Operations and Other**, including the Management Directorate (MGMT), the Office of the Secretary, the Office of Inspector General (OIG), the Domestic Nuclear Detection Office (DNDO), the Office of Intelligence and Analysis (I&A), and the Office of Operations Coordination (OPS)
- **U.S. Secret Service (USSS)**
- **Science and Technology Directorate (S&T)**
- **Transportation Security Administration (TSA)**

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

B. Basis of Presentation

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

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

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

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

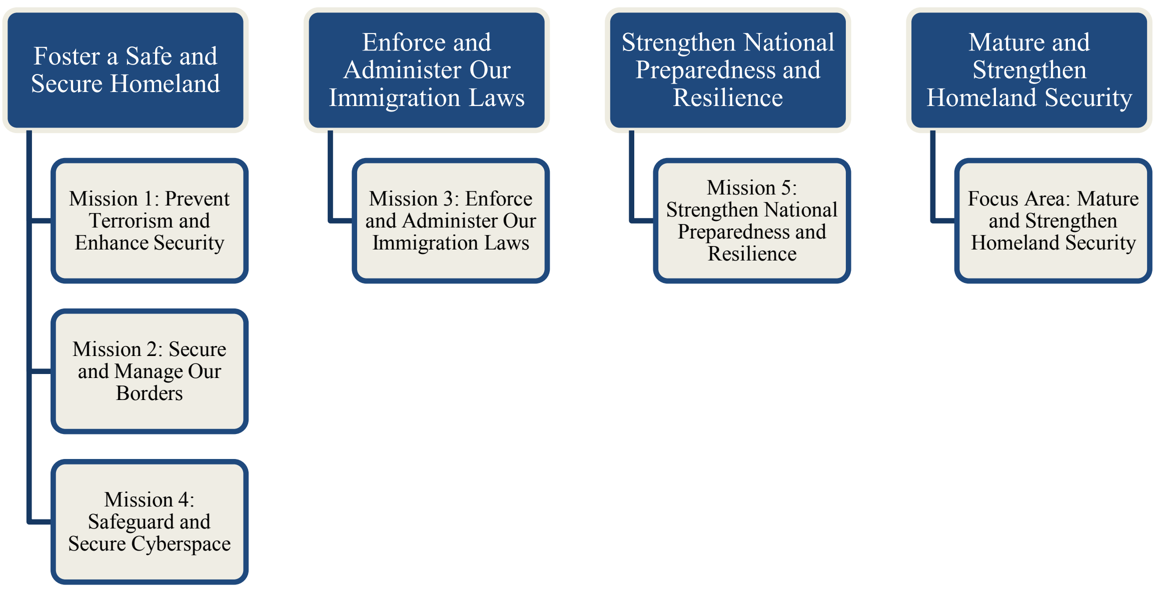
Transactions and balances among the Department's Components have been eliminated in the consolidated presentation of the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and the Statements of Custodial Activity. Intradepartmental activity reported in a fund from dedicated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

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

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

The Department presents its Statements of Net Cost by grouping the missions and focus area described in the DHS strategic plan into four major missions. The consolidation of the missions and focus area(s) into four major missions allows the reader of the financial statements to see how resources are spent towards a common objective of a safe, secure, and more resilient America. The Department is presenting its Statements of Net Cost and related footnotes aligned to the DHS FY 2014-2018 Strategic Plan.

The diagram below shows the relationship between the Department's missions and the focus area described in the DHS FY 2014-2018 Strategic Plan and the four major missions used to present the Statements of Net Cost and related disclosures:



C. Basis of Accounting

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

D. Use of Estimates

Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of consolidated financial statements, and the reported amounts of revenue, claims and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include: the year-end accruals of accounts and grants payable; environmental liabilities; accrued workers' compensation; USCG construction in progress; deferred revenue; National Flood Insurance Program (NFIP) insurance liability; actuarial liabilities related to workers' compensation; and actuarial liabilities related to military and other pension, retirement, and post-retirement benefits.

E. Entity and Non-Entity Assets

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

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

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

F. Fund Balance with Treasury

Fund Balance with Treasury represents the aggregate amount of the Department's accounts with the Department of the Treasury (Treasury) available to pay current liabilities and finance authorized purchases, except as restricted by law. The Department's Fund Balance with Treasury balances are primarily appropriated, revolving, trust, deposit, receipt, and special fund amounts remaining as of the end of the fiscal year. Fund Balance with Treasury does not include fiduciary amounts (see Note 1.Y., Fiduciary Activities).

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.

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

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

H. Investments, Net

Investments consist of Federal Government nonmarketable par value and nonmarketable market-based Treasury securities and are reported at cost or amortized cost net of premiums or discounts. Premiums or discounts are amortized into interest income over the terms of the investment using the effective interest method 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 from other federal agencies and the public. In general, intragovernmental accounts receivable 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 result from various immigration and user fees, premiums and policy fees from insurance companies and policyholders, breached bonds, reimbursable services, oil spill cost recoveries, security fees, loans, grant programs and contracts.

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.

Taxes, duties, and trade receivables consist of duties, user fees, fines and penalties, refunds and drawback overpayments, and interest associated with import/export activity, which have been established as a specifically identifiable, legally enforceable claim which remain uncollected as of year-end.

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

J. Advances and Prepayments

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

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

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

For additional information, see Note 13, Other Assets.

K. 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 local governments that have suffered a substantial loss of tax and other revenue as a result of a major disaster and demonstrate a need for federal financial assistance in order to perform their municipal operating functions. Under the program, FEMA transacts direct loans to local governments that meet statutorily set eligibility criteria. Loans are accounted for as receivables as funds are disbursed.

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

Loans receivable are recorded at the present value of the estimated net cash flows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recorded in the allowance for subsidy, which is estimated and adjusted annually, as of year-end. Interest receivable is the total interest that has accrued on each of the outstanding loans, less any cancellations that may have been recorded due to the FEMA cancellation policy as described in 44 Code of Federal Regulations (CFR) Section 206.366.

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

L. Inventory and Related Property, Net

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

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

OM&S held at CBP sites consist of aircraft parts, vessel parts, Office of Technology Innovation and Acquisition (OTIA) parts, and CBP uniforms to be used in CBP's operations. Aircraft and OTIA parts and materials are recorded at average unit cost. Vessel parts and uniforms are recorded using the first-in/first-out valuation method. Both methods approximate actual acquisition costs. The cost of the repairs for OM&S reparable items that are in a "held for repair" status is recorded using the direct method.

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

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 (e.g., water, meals, cots, blankets, tarps, and blue roof sheeting). Stockpile materials at year-end are stated at historical cost using the weighted average method.

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

M. Seized and Forfeited Property

Seized property falls into two categories: nonprohibited and prohibited.

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

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

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

An analysis of changes in prohibited seized and forfeited property is presented in Note 10, Seized and Forfeited Property.

N. General Property, Plant, and Equipment, Net

The Department's PP&E consists of aircraft, vessels, vehicles, land, structures, facilities, leasehold improvements, software, information technology, and other equipment. PP&E is generally recorded at historical cost. The Department capitalizes PP&E acquisitions when the cost equals or exceeds an established threshold and has a useful life of two years or more.

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

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

The schedule below shows a summary of the range of capitalization thresholds used by DHS Components. DHS policy allows Components to continue using legacy capitalization thresholds and Component-specific policies for assets acquired prior to October 1, 2007. For assets acquired on or after October 1, 2007, Components use the DHS capitalization policy as general guidance unless adopting it would cause a material misstatement of the standalone financial statements, or it would cause the Component to be noncompliant with GAAP. Bulk purchases are subject to a $1 million capitalization threshold, unless one of the above Component criteria is met, which would require the use of Component-specific thresholds.

The ranges of capitalization thresholds and service life used by Components, by primary asset category, are as follows:

Asset Description	Capitalization Threshold	Useful Life
Land	Zero to $200,000	Not Applicable
Improvements to Land	Zero to $200,000	3 years to 50 years
Buildings, Other Structures and Facilities	$50,000 to $200,000	10 years to 50 years
Equipment	Zero to $200,000	3 years to 87 years
Capital Leases	$25,000 to $200,000	2 years to 20 years
Leasehold Improvements	$50,000 to $200,000	2 years to 30 years
Internal Use Software	$50,000 to $750,000	3 years to 13 years

The Department begins to recognize depreciation expense once the asset has been placed in service. Depreciation is calculated on a straight-line method for all asset classes over their estimated useful lives. Land is not depreciated. Leasehold improvements are depreciated over the shorter of the term of the remaining portion of the lease or the useful life of the improvement. Buildings and equipment acquired under capital leases are amortized over the lease term. Amortization of capitalized software is calculated using the straight-line method and begins on the date of acquisition if purchased, or when the module or component has been placed in use (i.e., successfully installed and tested) if contractor or internally developed. There are no restrictions on the use or convertibility of general PP&E.

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

O. Stewardship Property, Plant, and Equipment

Stewardship PP&E includes heritage assets that generally are not included in general PP&E presented on the Balance Sheet. Heritage assets are unique due to their historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. In general, heritage assets are expected to be preserved indefinitely. The Department's heritage assets are maintained by the USCG, CBP, USCIS, TSA, FEMA, S&T, USSS, and FLETC. These heritage assets consist of documents, historical artifacts, immigration and naturalization files, artwork, buildings, and structures. The cost of improving, reconstructing, or renovating heritage assets is recognized as an expense in the period incurred. Similarly, the cost to acquire or construct a heritage asset is recognized as an expense in the period incurred. Due to their nature, heritage assets are not depreciated because matching costs with specific periods would not be meaningful.

Heritage assets can serve two purposes: a heritage function and a general government operational function. If a heritage asset serves both purposes, but is predominantly used for general government operations, the heritage asset is considered a multi-use heritage asset, which is depreciated and included in general PP&E on the Balance Sheet. The Department depreciates its multi-use heritage assets over their useful life. The Department's multi-use heritage assets consist of buildings and structures, memorials, and recreation areas owned by CBP, USCG, and FEMA.

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

P. Liabilities

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

Q. Contingent Liabilities

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

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

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

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

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

R. Liabilities for Grants and Cooperative Agreements

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

S. Insurance Liabilities

Insurance liabilities are primarily the result of the Department's sale or continuation-in-force of flood insurance policies within the NFIP, which is managed by FEMA. The NFIP insurance liability represents an estimate based on the loss and loss adjustment expense factors inherent to the NFIP Insurance Underwriting Operations, including trends in claim severity and frequency. These estimates are routinely reviewed, and adjustments are made as deemed necessary. The estimate is driven primarily by flooding activity in the U.S. and can vary significantly year over year depending on timing and severity of flooding activity.

The Biggert-Waters Flood Insurance Reform Act of 2012 (Pub. L. 112-141) and the Homeowner Flood Insurance Affordability Act (Pub. L. 113-89) amended the National Flood Insurance Act of 1968 to extend the NFIP, and the financing for it, through FY 2017, and establish a National Flood Insurance Reserve Fund to meet the expected future obligations of the NFIP. The Homeowners Flood Insurance Affordability Act of 2014 repeals and modifies certain provisions of the Biggert-Waters Flood Insurance Reform Act of 2012, and requires an annual surcharge on every new or renewed NFIP policy.

Subsidized rates are charged on a countrywide basis for certain classifications of the insured. These subsidized rates produce a premium less than the loss and loss adjustment expenses expected to be incurred in a historical average loss year. Subsidized rates are used to provide affordable insurance on construction or substantial improvements started on or before December 31, 1974, or before the effective date of the initial Flood Insurance Rate Map (i.e., an official map of a community on which NFIP has delineated both the special hazard areas and the nonsubsidized premium zones applicable to the community).

For additional 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 of FEMA. Most of this debt is not covered by current budgetary resources. Premiums collected by FEMA for the NFIP based on subsidized rates are not sufficient to cover the debt repayments (see Note 1.S, Insurance Liabilities). Legislation will need to be enacted to provide funding to repay Treasury's Bureau of the Fiscal Service (BFS) or to forgive the debt.

Borrowing authority, to the extent of existing obligations, is in budgetary status for use by FEMA for insurance claims and community disaster loans (CDLs). Borrowing authority is converted to cash and transferred to the Fund Balance with Treasury when needed for these purposes.

For more information, see Note 15, Debt, and Note 25, Available Borrowing Authority.

U. Accrued Payroll and Benefits

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

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

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

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

The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a component of federal employee and veterans' benefits. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL determines the actuarial FECA liability annually, as of September 30, using an actuarial method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value using the OMB economic assumptions for 10-year Treasury notes and bonds. The actuarial FECA liability is not covered by budgetary resources and will require future funding.

For additional information regarding accrued FECA liability, payroll, and leave, see Note 18, Other Liabilities. For more information on the actuarial FECA liability, see Notes 1.V and Note 16, Federal Employee and Veterans' Benefits.

V. Federal Employee and Veterans' Benefits

The Department's federal employee and veterans' benefits consist of the USCG's Military Retirement System (MRS), USCG Military Health System (MHS), USSS's Uniformed Division and Special Agent Pension, other civilian employees' pension programs, other retirement benefits (ORB), other post-employment benefits (OPEB), and the actuarial FECA liability.

The Department recognizes liabilities and expenses for MRS, MHS, and Uniformed Division and Special Agent Pension. Gains and losses from changes in long-term assumptions used to measure these liabilities are reported as a separate line item on the Statement of Net Cost, consistent with Statement of Federal Financial Accounting Standards (SFFAS) No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates.* Civilian employees' pension programs, ORB, and OPEB are administered by the Office of Personnel Management (OPM) and do not represent a liability for the Department.

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

Under the National Defense Authorization Act for FY 2016 (Pub. L. 114-92), members entering service after December 31, 2017 will be enrolled in the new modernized retirement system, also referred to as the Blended Retirement System (BRS). BRS changes the pension formula by reducing the percentage per year of service, and entitles members to Thrift Savings Plan contributions, as well as well as additional compensation in exchange for a commitment for additional years of service (after serving for 12 years for active members and less than 4,320 points for reservists). Members who joined USCG after January 1, 2006 may choose either BRS or the legacy retirement system.

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

The second category of military healthcare liability is for non-Medicare-eligible retirees and beneficiaries. The MHS is a post-retirement medical benefit plan that covers all active component and reserve component members of the USCG. The USCG is the administrative entity for MHS, and in accordance with SFFAS No. 5, recognizes the liability on its financial statements. As with the MRS, the actuarial accrued liability for MHS is the portion of the present value of the future benefits expected to be paid that is attributed to past service (service by participants rendered prior to the date of determination). Benefits are funded on a pay-as-you-go basis through annual appropriations.

The discount rates used to measure the MRS and MHS actuarial liabilities for USCG are based on the 10-year average historical rates of return on marketable Treasury securities at September 30. The rates used in this average are the rates for securities that will mature on the dates on which future benefit payments are expected to be made. The cost of living adjustment assumption also changed from a seven-year average to a 10-year average. Prior to FY 2016, USCG used a seven-year average historical rate of return on marketable Treasury securities. The change to a 10-year average historical rates of return is intended to reduce the impact of volatility in prior year rates, which is important given the size and long-term nature of the USCG plan.

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

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

Civilian Pension, Other Retirement Benefits, 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 OPM rather than the Department. Accordingly, the Department does not display gains and losses from changes in long-term assumptions used to measure these liabilities on the Statement of Net Cost.

Most DHS employees 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. FERS and Social Security cover the majority of employees hired after December 31, 1983. Employees hired between January 1, 1984 and December 31, 2012 are covered by the FERS basic annuity benefit. For the FERS basic annuity benefit, the Department contributes 13.7 percent of base pay for regular FERS employees and 30.1 percent for law enforcement agents. Employees hired between January 1, 2013 and December 31, 2013 are covered by the FERS revised annuity benefit; employees hired after December 31, 2013 are covered by the FERS further revised annuity benefit. For the FERS revised annuity benefit and the further revised annuity benefit, the Department contributes 11.9 percent of base pay for regular FERS employees and 28.4 percent for law enforcement agents. A primary feature of FERS is that it also offers a defined contribution plan (Federal Thrift Savings Plan) to which the Department automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. The Department also contributes the employer's Social Security matching share for FERS participants.

Similar to CSRS and FERS, OPM reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program and Federal Employees Group Life Insurance Program. The Department reports both the full annual cost of providing these ORB for its retired employees and reporting contributions made for active employees. In addition, the Department recognizes the cost for OPEB, including all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

The difference between the full annual cost of 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.

W. Funds from Dedicated Collections

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

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

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

X. Revenue and Financing Sources

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

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

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 generally subject to the Economy Act (31 United States Code (USC) 1535). Prices for goods and services sold to other Federal Government agencies are generally limited to the recovery of direct cost.

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

Allocation Transfers. Prior to FY 2016, the Department received allocation transfers from the U.S. Department of Transportation. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the Treasury as a subset of the parent (transferring) fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child (receiving) entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. In general, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and budget apportionments are derived.

Exchange and Non-exchange Revenue. Exchange revenue is recognized when earned and is derived from transactions where both the government and the other party receive value (i.e., goods have been delivered or services have been rendered). DHS exchange revenue includes, but is not limited to: immigration fees, NFIP insurance premiums, Student Exchange Visa Program fees, and aviation security fees. Reimbursable exchange revenue includes, but is not limited to: services provided to the government of Puerto Rico for the collection of duties, taxes, and fees; services for personnel; medical, housing and various types of maritime support; the Federal Protective Service Guard personnel; and oil spill cleanup costs.

The majority of DHS non-exchange revenue is derived from the custodial collections of user fees, taxes, customs duties, fines and penalties, interest on the fines and penalties, and the refund and drawbacks related to these collections. Non-exchange revenue from user fees results from the government's sovereign power to demand revenue and is recognized as earned in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) (Pub. L. 99-272), as amended. Examples of non-exchange revenue from user fees include the collection of fees by CBP on incoming private vessels, private aircraft, and commercial vehicles. Non-exchange revenue also arises from transfers-in with and without financing sources and donations from the public. Other financing sources, such as donations and transfers of assets without reimbursements, are recognized on the Statements of Changes in Net Position during the period in which the donations and transfers occurred.

Deferred revenue is recorded when the Department receives payment for goods or services which have not been fully rendered. Deferred revenue is reported as a liability on the Balance Sheet until earned. NFIP premium revenue is recognized ratably over the life of the policies. Deferred revenue relates to unearned premiums which represent the unexpired portion of policy premiums. USCIS fees are related to adjudication of applications for immigration and naturalization services that are used to provide special benefits to recipients and pay the regulatory costs from the adjudication process. USCIS requires advance payments of the fees for adjudication of applications or petitions for immigration and naturalization benefits.

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

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

CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. The custodial revenue is recorded at the time of collection. These revenue collections primarily result from current fiscal year activities. CBP records an equal and offsetting liability due to the Treasury General Fund for amounts recognized as non-entity tax and trade receivables. Non-entity tax and trade accounts receivables 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. 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. 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 Statements of Custodial Activity. The liability for refunds and drawbacks consists of amounts owed for refunds of duty and other trade related activity and drawback claims. CBP accrues a monthly liability for refunds and drawback claims approved at month-end, but paid subsequent to month-end.

An accrual adjustment is recorded on the Statements of Custodial Activity to adjust cash collections and refund disbursements with the net increase or decrease of accrued non-entity accounts receivables, net of uncollectible amounts, and refunds payable at year-end.

For additional information, see Note 7, Taxes, Duties, and Trade Receivables, Net, and Note 29, Custodial Revenue.

Y. Fiduciary Activities

Fiduciary activities are Federal Government activities that relate to the collection or receipt and the subsequent management, protection, accounting, investment and disposition of cash or other assets in which non-federal individuals or entities have an ownership. Federal accounting standards require the Department to distinguish the information relating to its fiduciary activities from all other activities. Fiduciary activities are not recognized on the accompanying financial statements. The Department's fiduciary activities are currently immaterial, and therefore, no additional disclosure is necessary.

Z. Taxes

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

AA. Reclassifications

In FY 2016, certain FY 2015 balances were reclassified to conform to FY 2016 presentation for the following: Statement of Budgetary Resources; Statement of Custodial Activity; and, Note 10, Seized and Forfeited Property.

2. *Non-Entity Assets*

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

	2016	2015
Intragovernmental:		
Fund Balance with Treasury	$ 1,851	$ 1,698
Accounts Receivable	1	2
Total Intragovernmental	1,852	1,700
Public:		
Cash and Other Monetary Assets	9	7
Accounts Receivable, Net	37	37
Taxes, Duties, and Trade Receivables, Net	3,042	3,245
Total Public	3,088	3,289
Total Non-Entity Assets	4,940	4,989
Total Entity Assets	92,690	90,570
Total Assets	**$ 97,630**	**$ 95,559**

Non-entity Fund Balance with Treasury consists of certain special and deposit funds, permanent and indefinite appropriations, and miscellaneous receipts. Non-entity assets (also discussed in Notes 3, 4, 6, and 7) are offset by corresponding liabilities at September 30, 2016 and 2015. Taxes, duties, and trade receivables from the public represent amounts due from importers for goods and merchandise imported to the United States.

3. *Fund Balance with Treasury*

A. Fund Balance with Treasury

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

	2016	2015
General Funds	$ 50,331	$ 50,599
Trust Funds	256	290
Revolving, Public Enterprise, and Working Capital Funds	1,066	1,808
Special Funds	5,784	5,493
Deposit Funds	1,560	1,363
Total Fund Balance with Treasury	**$ 58,997**	**$ 59,553**

General funds consist of amounts appropriated annually by Congress to fund the operations of the Department. General funds include clearing funds totaling $(38) million and $(128) million at September 30, 2016 and 2015, respectively, which represent reconciling differences with Treasury balances. As of September 30, 2016 and 2015, restricted non-entity fund balance with Treasury was $1,851 million and $1,698 million, respectively.

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, in general to offset the cost of expanding border and port enforcement activities, oil spill related claims and activities, and administrative expenses related to the collection of the Harbor Maintenance Fee. For additional information, see Note 22, Funds from Dedicated Collections.

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. A public enterprise revolving fund is an account that is authorized by law to be credited with offsetting collections from the public and those monies are used to finance operations. Examples of Department public enterprise funds include the direct loans program and NFIP. In addition, the Working Capital Fund is a fee-for-service fund established to support operations of Department Components.

Special funds are funds designated 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. The Department also has special funds for immigration and naturalization user fees and CBP user fees, as well as inspection fees, National Flood Insurance Reserve Fund fees, and off-set and refund transfers. For additional information, see Note 22, Funds from Dedicated Collections. In addition, some special funds are included in budgetary status as available for obligations. For additional information, see Note 26, Legal Arrangements Affecting the Use of Unobligated Balances.

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.

B. Status of Fund Balance with Treasury

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

	2016	2015
Budgetary Status		
Unobligated Balances:		
Available	$ 10,287	$ 12,955
Unavailable	3,191	3,267
Obligated Balance Not Yet Disbursed	43,786	41,059
Total Budgetary Status	57,264	57,281
Reconciling Adjustments:		
Receipt, Clearing, and Deposit Funds	2,575	2,289
Borrowing Authority (Note 25)	(5)	(7)
Investments	(7,886)	(6,428)
Receivable Transfers and Imprest Fund	(289)	(272)
Receipts Unavailable for Obligation	5,459	4,801
Offsetting Collections Previously or Temporarily Precluded from Obligation	35	39
SFRBTF; OSLTF	1,425	1,433
Temporary Reduction of Budget Authority	434	438
Temporary Reduction of Specific Invested Treasury Account Symbols	(15)	(21)
Total Fund Balance with Treasury	**$ 58,997**	**$ 59,553**

Portions of the Unobligated Balances Available, Unavailable, and Obligated Balance Not Yet Disbursed contain CBP's user fees of $294 million and $206 million at September 30, 2016 and 2015, respectively, which are restricted by law in its use to offset costs incurred by CBP. The Unobligated Balances Available also includes transfers in from the Spectrum Relocation Fund (47 USC 928) that will be available for obligation at a future date.

Portions of the Unobligated Balance Unavailable include amounts appropriated in prior fiscal years that are not available to fund new obligations, including expired funds. However, the amounts can be used for upward and downward adjustments for existing obligations in future years. The Obligated Balance Not Yet Disbursed represents amounts designated for payment of goods and services ordered but not received or goods and services received but for which payment has not yet been made.

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

- Receipt, clearing, and deposit funds represent amounts on deposit with Treasury that have no budget status at September 30, 2016 and 2015.
- Borrowing authority, to the extent of existing obligations, is in budgetary status for use by FEMA for NFIP purposes and CDLs, and transfers have been made to the Fund Balance with Treasury account for these purposes. For additional information, see Note 25, Available Borrowing Authority.
- Budgetary resources have investments included; however, the money has been moved from the Fund Balance with Treasury asset account to Investments.
- Receivable transfers of currently invested balances increase the budget authority at the time the transfer is realized; however, obligations may be incurred before the actual transfer of funds.
- Imprest funds represent funds moved from Fund Balance with Treasury to Cash and Other Monetary Assets with no change in the budgetary status.
- For receipts unavailable for obligations, authorizing legislation may specify that obligations are not available until a specified time in the future or until specific legal requirements are met.
- Offsetting collections previously or temporarily precluded from obligation are offsetting collections that become unavailable for obligation until specific legal requirements are met.
- Sport Fish Restoration Boating Trust Fund (SFRBTF) and Oil Spill Liability Trust Fund (OSLTF) are Treasury-managed funds. These funds receive revenue transferred from custodial activities of the Treasury, which are deposited in a Treasury account. For more information, see Note 22, Funds from Dedicated Collections.
- Temporary reduction of budget authority includes new budget authority or prior-year balance that have been temporarily reduced by enacted legislation in special and nonrevolving trust funds associated with receipt accounts designated by the Treasury as available.
- Temporary reduction of specific invested Treasury account symbols includes reductions of amounts appropriated from specific invested Treasury account symbols in the current year due to OMB sequestered amounts.

4. *Cash and Other Monetary Assets*

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

	2016	2015
Total Cash and Other Monetary Assets	**$ 193**	**$ 24**

DHS cash includes cash held by others, imprest funds, undeposited collections, and the net balances maintained by insurance companies for flood insurance activity. Cash increases primarily relate to amounts held by insurance companies in anticipation of claims to be paid out for severe storms and flooding in FY 2016. Restricted non-entity cash and other monetary assets were $9 million and $7 million at September 30, 2016 and 2015, respectively (see Note 2).

5. *Investments, Net*

Investments at September 30, 2016, consisted of the following (in millions):

Type of Investment:	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental Securities:						
OSLTF	Effective interest method	$ 4,950	$ 15	$ 8	$ 4,973	N/A
SFRBTF	Effective interest method	1,911	(2)	2	1,911	N/A
General Gift Fund	Effective interest method	1	-	-	1	N/A
Total Nonmarketable, Par Value		6,862	13	10	6,885	N/A
National Flood Insurance Reserve Fund	Effective interest method	1,039	120	16	1,175	1,162
Total Nonmarketable, Market-Based		1,039	120	16	1,175	1,162
Total Investments, Net		**$ 7,901**	**$ 133**	**$ 26**	**$ 8,060**	

Investments at September 30, 2015, consisted of the following (in millions):

Type of Investment:	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental Securities:						
OSLTF	Effective interest method	$ 4,243	$ 20	$ 12	$ 4,275	N/A
SFRBTF	Effective interest method	1,941	(3)	2	1,940	N/A
General Gift Fund	Effective interest method	1	-	-	1	N/A
Total Nonmarketable, Par Value		6,185	17	14	6,216	N/A
National Flood Insurance Reserve Fund	Effective interest method	255	23	4	282	279
Total Nonmarketable, Market-Based		255	23	4	282	279
Total Investments, Net		**$ 6,440**	**$ 40**	**$ 18**	**$ 6,498**	

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

The National Flood Insurance Reserve Fund was established by the Biggert-Waters Flood Insurance Reform Act of 2012 (Pub. L. 112-141) to meet the expected future obligations of the NFIP.

Treasury securities provide the USCG and FEMA with authority to draw upon the Treasury to make future benefit payments or other expenditures. For additional information, see Note 22, Funds from Dedicated Collections.

6. *Accounts Receivable, Net*

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

	2016	2015
Intragovernmental	$ 290	$ 323
With the Public:		
Accounts Receivable	2,713	1,777
Allowance for Doubtful Accounts	(84)	(453)
Total With the Public	2,629	1,324
Accounts Receivable, Net	**$ 2,919**	**$ 1,647**

As of September 30, 2016 and 2015, total restricted non-entity accounts receivable were $38 million and $39 million, respectively (see Note 2).

The change in accounts receivable is primarily due to the Consent Decree between the Department of Justice and BP for the Deepwater Horizon oil spill, which was approved in April 2016. The consent decree requires BP to pay a penalty to the U.S. Government under a 15-year payment plan that requires annual payments beginning on April 4, 2017. Of the total amount owed to the U.S. Government, the OSLTF will receive a total of $935 million plus interest. The final installment payment will be the accrued interest of $60 million. BP was also assessed $374 million for unpaid costs and damages paid from the OSLTF through July 2, 2015, to be paid in annual installments over the next eight years beginning in 2016. No interest will be accrued on this amount. The Department anticipates full and timely collection consistent with the terms of the Consent Decree. Accordingly, the Department is not recognizing an allowance for doubtful accounts regarding this settlement.

7. Taxes, Duties, and Trade Receivables, Net

Taxes, Duties, and Trade Receivables consisted of the following (in millions):

As of September 30, 2016:

Receivables Category	Gross Receivables	Allowance	Total Net Receivables
Duties	$ 2,690	$ (134)	$ 2,556
Excise Taxes	197	(8)	189
User Fees	76	-	76
Fines/Penalties	1,226	(1,123)	103
Antidumping and Countervailing Duties	2,118	(2,000)	118
Total Taxes, Duties, and Trade Receivables, Net	**$ 6,307**	**$ (3,265)**	**$ 3,042**

As of September 30, 2015:

Receivables Category	Gross Receivables	Allowance	Total Net Receivables
Duties	$ 2,724	$ (126)	$ 2,598
Excise Taxes	163	(10)	153
User Fees	71	-	71
Fines/Penalties	1,124	(1,026)	98
Antidumping and Countervailing Duties	2,128	(1,803)	325
Total Taxes, Duties, and Trade Receivables, Net	**$ 6,210**	**$ (2,965)**	**$ 3,245**

CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. 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.

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 60 days to either file a petition requesting a review of the assessment or pay the assessed amount. Once a petition is received, CBP investigates the circumstances as required by its mitigation guidelines and directives. Until this process has been completed, the Department records an allowance, net of interest, on fines and penalties, based on historical experience of fines and penalties mitigation and collection. The allowance was approximately 92 percent and 91 percent at September 30, 2016 and 2015, respectively. Duties and taxes receivables are non-entity assets for which there is an offsetting liability due to the General Fund (see Note 18).

8. Direct Loans, Net

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

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

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

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

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

The Consolidated and Furthering Appropriations Act, 2013 (Pub. L. 113-6) loosened the restrictions used in calculating the operating deficit to determine if a local government qualifies for additional cancellations. In addition, the law allows FEMA to reimburse those local governments who have repaid all, or a portion of, their loans, and who have received additional cancellations.

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

	2016	2015
	Loans Receivable, Net	Loans Receivable, Net
Community Disaster Loans	**$ 29**	**$ 18**

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 After FY 1991 (in millions):

Community Disaster Loans	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
2016	**$ 133**	**$ 6**	**$ (110)**	**$ 29**
2015	**$ 132**	**$ 6**	**$ (120)**	**$ 18**

C. Total Amount of Direct Loans Disbursed, Post-1991 (in millions):

	2016	2015
Community Disaster Loans	**$ 4**	**$ 12**

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

Subsidy Expense for New Direct Loans Disbursed as of September 30

Community Disaster Loans	Interest Differential	Other	Total
2016	**$ -**	**$ 3**	**$ 3**
2015	**$ 1**	**$ 11**	**$ 12**

Direct Loan Modifications and Re-estimates

Community Disaster Loans	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
2016	**$ -**	**$ -**	**$ (14)**	**$ (14)**
2015	**$ -**	**$ -**	**$ (8)**	**$ (8)**

Total Direct Loan Subsidy Expense

	2016	2015
Community Disaster Loans	**$ (11)**	**$ 4**

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

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

	2016	2015
	Community Disaster Loans	Community Disaster Loans
Interest Subsidy Cost	2.50%	0.25%
Default Costs	0.15%	0.06%
Other	88.40%	96.04%

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

Default costs include the projected default amounts based on Moody's default curve for years 6 to 10.

The Other line represents the subsidy rates for direct loans that are partially cancelled or cancelled in full if specified conditions are met. Historically, a high percentage of the borrowers have met the conditions for cancellation, thus resulting in a high direct loan subsidy rate.

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

	2016	2015
Beginning balance of the subsidy cost allowance	$ 120	$ 115
Add subsidy expense for direct loans disbursed during the reporting years by component:		
Interest rate differential costs	-	1
Other subsidy costs	3	11
Adjustments:		
Loans written off	-	(1)
Subsidy allowance amortization	1	2
Ending balance of the subsidy cost allowance before re-estimates	124	128
Add subsidy re-estimate by Component		
Technical/default re-estimate	(14)	(8)
Ending balance of the subsidy cost allowance	**$ 110**	**$ 120**

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

	2016	2015
Community Disaster Loans	**$ -**	**$ -**

9. Inventory and Related Property, Net

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

	2016	2015
OM&S		
Items Held for Use	$ 1,309	$ 1,342
Items Held for Future Use	42	36
Items Held for Repair	775	763
Excess, Obsolete and Unserviceable Items	-	20
Less: Allowance for Losses	(309)	(292)
Total OM&S, Net	**1,817**	**1,869**
Inventory		
Inventory Purchased for Resale	37	61
Less: Allowance for Losses	(7)	(8)
Total Inventory, Net	**30**	**53**
Stockpile Materials Held in Reserve	**89**	**94**
Total Inventory and Related Property, Net	**$ 1,936**	**$ 2,016**

10. *Seized and Forfeited Property*

Prohibited seized property item counts as of September 30 and seizure and forfeiture activity for FY 2016 and 2015 are as follows:

For the Fiscal Year Ended September 30, 2016:

Seized Property:	Beginning Balance	New Seizures	Remissions and Adjustments	New Forfeitures	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	1,316	772,329	1,011	(774,437)	219
Cocaine	412	30,701	(381)	(30,630)	102
Heroin	21	2,426	1	(2,425)	23
Methamphetamine	210	18,863	(8)	(18,831)	234
Khat	-	70,277	-	(70,277)	-
Synthetic Marijuana	269	719	(264)	(715)	9
Other Drugs	1,285	11,965	(94)	(11,809)	1,347
Firearms and Explosives (in number of case line items)	4,217	1,951	(360)	(1,318)	4,490
Counterfeit Currency (US, in number of items)	7,125,874	3,009,701	(2,465,436)	-	7,670,139
Counterfeit Goods (in number of case line items)	33,212	66,879	(3,265)	(63,716)	33,110

Forfeited Property:	Beginning Balance	New Forfeitures	Transfers and Adjustments	Destroyed	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	145,112	774,437	(460,331)	(318,619)	140,599
Cocaine	25,037	30,630	(3,717)	(20,399)	31,551
Heroin	3,757	2,425	(466)	(2,429)	3,287
Methamphetamine	14,580	18,831	(1,004)	(13,205)	19,202
Khat	3,000	70,277	24	(69,687)	3,614
Synthetic Marijuana	10,273	715	99	(1,083)	10,004
Other Drugs	4,220	11,809	(550)	(8,814)	6,665
Firearms and Explosives (in number of case line items)	2,504	1,318	(2,507)	(8)	1,307
Counterfeit Goods (in number of case line items)	38,089	63,716	558	(71,737)	30,626

For the Fiscal Year Ended September 30, 2015:

Seized Property:	Beginning Balance	New Seizures	Remissions and Adjustments	New Forfeitures	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	3,013	893,068	(550)	(894,215)	1,316
Cocaine	303	27,226	(240)	(26,877)	412
Heroin	49	2,638	(35)	(2,631)	21
Methamphetamine	33	13,627	(66)	(13,384)	210
Khat	-	67,412	-	(67,412)	-
Synthetic Marijuana	303	3,804	(39)	(3,799)	269
Other Drugs	858	9,103	(17)	(8,659)	1,285
Firearms and Explosives (in number of case line items)	5,603	1,579	(520)	(2,445)	4,217
Counterfeit Currency (US, in number of items)	6,117,550	1,769,320	(760,996)	-	7,125,874
Counterfeit Goods (in number of case line items)	33,320	63,879	(3,237)	(60,750)	33,212

Forfeited Property:	Beginning Balance	New Forfeitures	Transfers and Adjustments	Destroyed	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	134,592	894,215	(544,624)	(339,071)	145,112
Cocaine	21,301	26,877	(465)	(22,676)	25,037
Heroin	3,505	2,631	(165)	(2,214)	3,757
Methamphetamine	13,274	13,384	(386)	(11,692)	14,580
Khat	2,242	67,412	(21)	(66,633)	3,000
Synthetic Marijuana	9,538	3,799	78	(3,142)	10,273
Other Drugs	8,220	8,659	(160)	(12,499)	4,220
Firearms and Explosives (in number of case line items)	1,410	2,445	(1,322)	(29)	2,504
Counterfeit Goods (in number of case line items)	26,583	60,750	47	(49,291)	38,089

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

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

The ending balance for firearms includes only those seized items that can actually be used as firearms. Firearms are presented in number of case line items, which represent different types of firearms seized as part of a case. Counterfeit goods include clothing, footwear, jewelry, electronic equipment, movies, media, identification documents, and other items. Counterfeit goods are presented in number of case line items. USCG and ICE also seize and take temporary possession of small boats, equipment, general property, firearms, contraband, and illegal drugs. CBP maintains the seized property on behalf of USCG and ICE, and transfers nonprohibited seized property to the Treasury Forfeiture Fund. Seized property in USCG and ICE possession at year-end is not considered significant and therefore is not itemized and is not reported in the financial statements of the Department.

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

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

11. General Property, Plant, and Equipment, Net

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

As of September 30, 2016:	Useful Life	Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	$ 295	N/A	$ 295
Improvements to Land	3-50 yrs	2,285	841	1,444
Construction in Progress	N/A	2,907	N/A	2,907
Buildings, Other Structures and Facilities	10-50 yrs	8,319	4,074	4,245
Equipment:				
Automated Data Processing Equipment	3-5 yrs	1,027	756	271
Aircraft	12-44yrs	5,623	2,680	2,943
Vessels	5-87 yrs	8,261	3,737	4,524
Vehicles	4-8 yrs	1,042	883	159
Other Equipment	5-57 yrs	7,185	4,871	2,314
Assets Under Capital Lease	2-20 yrs	80	57	23
Leasehold Improvements	2-30 yrs	2,104	1,162	942
Internal Use Software	3-13 yrs	4,281	3,262	1,019
Internal Use Software - in Development	N/A	134	N/A	134
Total General Property, Plant, and Equipment, Net		**$ 43,543**	**$ 22,323**	**$ 21,220**

As of September 30, 2015:	Useful Life	Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	$ 291	N/A	$ 291
Improvements to Land	3-50 yrs	2,275	726	1,549
Construction in Progress	N/A	2,668	N/A	2,668
Buildings, Other Structures and Facilities	10-50 yrs	7,933	3,764	4,169
Equipment:				
Automated Data Processing Equipment	3-5 yrs	1,000	767	233
Aircraft	12-40 yrs	5,468	2,594	2,874
Vessels	5-76 yrs	8,022	3,533	4,489
Vehicles	4-8 yrs	1,010	858	152
Other Equipment	5-30 yrs	7,098	4,652	2,446
Assets Under Capital Lease	2-20 yrs	79	54	25
Leasehold Improvements	2-30 yrs	1,957	997	960
Internal Use Software	3-13 yrs	3,889	3,053	836
Internal Use Software - in Development	N/A	375	N/A	375
Total General Property, Plant, and Equipment, Net		**$ 42,065**	**$ 20,998**	**$ 21,067**

12. Stewardship Property, Plant, and Equipment

DHS's Stewardship PP&E is comprised of items held by USCG, CBP, USCIS, TSA, FEMA, S&T, USSS, and FLETC. These heritage assets are located in the United States, and the Commonwealth of Puerto Rico. Collection-type heritage assets are presented in either number of collections or number of individual items, while non collection-type and multi-use heritage assets are presented in number of individual units. Heritage assets as of September 30 consisted of the following:

2016	Beginning Balance	Additions	Withdrawals	Total
Collection-type Assets				
USCG	9	-	-	9
CBP	2	-	-	2
USCIS	5	-	-	5
TSA	11	-	-	11
S&T	1	-	-	1
USSS	2	-	-	2
Non Collection-type Assets				
USCG	73	-	-	73
S&T	1	-	-	1
FLETC	-	1	-	1
Multi-use Heritage Assets				
USCG	117	-	(4)	113
CBP	4	-	-	4
FEMA	1	-	-	1
Total Stewardship Property, Plant and Equipment	**226**	**1**	**(4)**	**223**

2015	Beginning Balance	Additions	Withdrawals	Total
Collection-type Assets				
USCG	9	-	-	9
CBP	2	-	-	2
USCIS	5	-	-	5
TSA	11	-	-	11
S&T	1	-	-	1
USSS	1	1	-	2
Non Collection-type Assets				
USCG	79	2	(8)	73
S&T	1	-	-	1
Multi-use Heritage Assets				
USCG	165	1	(49)	117
CBP	4	-	-	4
FEMA	1	-	-	1
Total Stewardship Property, Plant and Equipment	**279**	**4**	**(57)**	**226**

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

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

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

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

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

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

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

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

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

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

S&T non collection-type heritage assets consist of the Plum Island Lighthouse, located in the Plum Island Animal Disease Center, Orient Point, New York. The Plum Island Lighthouse is listed on the National Register of Historic Places.

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

Multi-Use Heritage Assets. When heritage assets are functioning in operational status, the Department classifies these as multi-use heritage assets in accordance with SFFAS No. 6, *Accounting for Property, Plant and Equipment*. All multi-use heritage assets are reflected on the Balance Sheet as general PP&E and are depreciated over their useful life. Some examples are historic lighthouses and buildings still in use. Deferred maintenance and condition information for heritage assets and general PP&E are presented in the required supplementary information. When multi-use heritage assets are no longer needed for operational purposes, they are reclassified as heritage assets, where most are transferred to other government agencies or public entities.

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

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

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

13. Other Assets

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

	2016	2015
Intragovernmental:		
Advances and Prepayments	$ 543	$ 806
Total Intragovernmental	**543**	**806**
Public:		
Advances and Prepayments	690	685
Other Assets	1	-
Total Public	**691**	**685**
Total Other Assets	**$ 1,234**	**$ 1,491**

14. Liabilities Not Covered by Budgetary Resources

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

	2016	2015
Intragovernmental:		
Debt (Note 15)	$ 23,000	$ 23,000
Due to the General Fund (Note 18)	3,027	3,291
Accrued FECA Liability (Note 18)	402	385
Other	183	103
Total Intragovernmental	26,612	26,779
Public:		
Federal Employee and Veterans' Benefits:		
Actuarial FECA Liability (Note 16)	2,752	2,507
Military Service and Other Retirement Benefits (Note 16)	55,276	53,793
Environmental and Disposal Liabilities (Note 17)	452	467
Other:		
Accrued Payroll and Benefits (Note 18)	1,374	1,320
Contingent Legal Liabilities (Note 21)	365	445
Capital Lease Liability (Note 19)	31	35
Other	69	30
Total Public	60,319	58,597
Total Liabilities Not Covered by Budgetary Resources	86,931	85,376
Liabilities Covered by Budgetary Resources	14,579	11,248
Total Liabilities	**$ 101,510**	**$ 96,624**

The Department anticipates that the portion of the liabilities listed above will be funded from future budgetary resources when required, except for Due to the General Fund, which is funded by future custodial collections. The remaining liabilities are covered by current budgetary resources.

15. Debt

Debt at September 30 and activity for fiscal years ended FY 2016 and 2015 consisted of the following (in millions):

Debt to the Treasury General Fund:	2016	2015
NFIP:		
Beginning Balance	$ 23,000	$ 24,000
Repayments	-	(1,000)
Ending Balance	**23,000**	**23,000**
Credit Reform:		
Beginning Balance	20	81
New Borrowing	1	11
Repayments	(4)	(72)
Ending Balance	**17**	**20**
Total Debt	**$ 23,017**	**$ 23,020**

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

NFIP loans can have up to a 10-year term. Interest rates are obtained from BFS and range by cohort year from 0.375 percent to 2.5 percent as of September 30, 2016, and from 0.125 percent to 2.5 percent as of September 30, 2015. Interest is paid semi-annually on March 31 and September 30. The total interest paid for the year was $345 million and $319 million as of September 30, 2016 and 2015, respectively. Interest is accrued based on the loan balances reported. Principal repayments are required only at maturity but are permitted any time during the term of the loan. The loan and interest payments are financed by the flood premiums from policyholders. Given the current rate structure, FEMA will not be able to pay its debt from the premium revenue alone; therefore, legislation will need to be enacted to provide funding to repay BFS or to forgive the debt. In accordance with the requirements established by the Biggert-Waters Flood Insurance Reform Act of 2012*,* FEMA reports on the status of the debt; interest paid since 2005, and principal repayments to OMB and Congress on a quarterly basis.

Under Credit Reform, the unsubsidized portion of direct loans is borrowed from BFS. The repayment terms of FEMA's borrowing 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 BFS. In addition, an annual re-estimate is performed to determine any change from the original subsidy rate. If an upward re-estimate is determined to be necessary, these funds are available through permanent indefinite authority, which is to be approved by OMB. Once these funds are appropriated, the original borrowings are repaid to BFS. The weighted average interest rates for FY 2016 and FY 2015 were 2.37 percent and 2.54 percent, respectively.

16. Federal Employee and Veterans' Benefits

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

	2016	2015
USCG Military Retirement and Healthcare Benefits	$ 49,778	$ 48,169
USSS DC Pension Plan Benefits	5,498	5,624
Actuarial FECA Liability	2,752	2,507
Total Federal Employee and Veterans' Benefits	**$ 58,028**	**$ 56,300**

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

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

For the Year Ended September 30, 2016:	USCG Military Retirement System	USCG Military Health System	USSS Uniformed Division and Special Agent Pension	Total
Beginning Liability Balance:	$ 42,452	$ 5,717	$ 5,624	$ 53,793
Expenses:				
Normal Cost	1,289	224	-	1,513
Interest on the Liability Balance	1,753	208	137	2,098
Actuarial Losses/(Gains):				
From Experience	(554)	(22)	(54)	(630)
From Assumption Changes	813	(622)	43	234
Other	69	11	-	80
Total Expense	3,370	(201)	126	3,295
Less Amounts Paid	1,350	210	252	1,812
Ending Liability Balance	**$ 44,472**	**$ 5,306**	**$ 5,498**	**$ 55,276**

For the Year Ended September 30, 2015:	USCG Military Retirement System	USCG Military Health System	USSS Uniformed Division and Special Agent Pension	Total
Beginning Liability Balance:	$ 37,586	$ 5,530	$ 5,044	$ 48,160
Expenses:				
Normal Cost	1,271	261	-	1,532
Interest on the Liability Balance	1,615	215	154	1,984
Actuarial Losses/(Gains):				
From Experience	(186)	17	30	(139)
From Assumption Changes	3,485	(84)	645	4,046
Total Expense	6,185	409	829	7,423
Less Amounts Paid	1,319	222	249	1,790
Ending Liability Balance	**$ 42,452**	**$ 5,717**	**$ 5,624**	**$ 53,793**

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

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

The actuarial accrued liability represents both retired pay for retirees, and healthcare benefits for non-Medicare eligible retirees/survivors. The present value of future benefits is the actuarial present value of the future payments that are expected to be paid under the retirement plan's provisions. Credited service is the years of service from active duty base date (or constructive date in the case of active duty reservists) to date of retirement measured in years and completed months. The actuarial accrued liability is the portion of the present value of the future benefits expected to be paid that is attributed to past service (service by participants rendered prior to the date of determination). USCG plan participants may retire after 20 years of active service at any age with annual benefits equal to 2.5 percent of retired base pay for each year of creditable active service. The retired pay base depends upon the date of initial entry into military service (DIEMS). For

DIEMS of September 8, 1980, or later, the retired pay base would be the mean of the highest 36 months of basic pay earned (or would have earned if on active duty). For DIEMS of September 7, 1980, or earlier, the retired pay base would be the basic pay rate in effect on the first day of retirement (if a commissioned officer or an enlisted member) or the basic pay rate in effect on the last day of active duty before retirement (if a warrant officer). Personnel who became members after August 1, 1986, may elect to receive a $30,000 career status bonus after 15 years of service in return for reductions in retired pay. The career status bonus election cannot be made after December 31, 2017.

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

The significant actuarial assumptions used to compute the accrued pension and healthcare liability are as follows:

1. DOD decrement tables are only used for mortality. Disability, withdrawal, and retirement tables reflecting actual USCG experience were developed based on an USCG experience study dated February 25, 2015;
2. Cost of living increases for the retirement plan are 2.48 percent, based on a ten-year average of the Treasury Breakeven Inflation yield curve, which combines other Treasury rates to estimate the rate of inflation;
3. Healthcare cost increase assumptions are based on the annual liability report provided by DOD and vary, depending on the year and type of care;
4. The discount rate percent is determined in accordance with SFFAS No. 33 and is calculated independently for pensions and healthcare. The current discount rate is 4.04 percent for the retirement system and 4.00 percent for the health system; and
5. Rates of salary increases are 2.10 percent annually.

USSS Uniformed Division and Special Agent Pension. Special agents and other USSS personnel in certain job series hired as civilians before January 1, 1984, are eligible to transfer to the District of Columbia Police Officers' and Firefighters' Retirement Plan (DC Pension Plan) after completion of 10 years of U.S. Secret Service employment and 10 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. 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 requires the administrative entity (administrator) to report the actuarial liability. However, USSS records a liability because the administrator (the DC Pension Plan) is not a federal entity and as such the liability for future funding would not otherwise be recorded in the government-wide consolidated financial statements.

The primary actuarial assumptions used to determine the liability at September 30, 2016, are:

1. Life expectancy is based upon the RP 2015 Combined Healthy Mortality Table;
2. Rates of salary increases are 0.00 percent annually because the vast majority of plan participants have already retired;
3. The discount rate calculated in accordance with SFFAS No. 33 is 2.50 percent; and
4. Rates of withdrawal for active service by gender and age.

B. Actuarial FECA Liability

The actuarial FECA liability represents the estimated liability for future workers' compensation and includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. Future workers' compensation estimates for the future cost of approved compensation cases, which are generated from an application of actuarial procedures developed by DOL, were approximately $2,752 million and $2,507 million at September 30, 2016 and 2015, respectively.

17. Environmental and Disposal Liabilities

Environmental and disposal liabilities at September 30, 2016 and 2015 are $454 million and $469 million, respectively. The Department is responsible for remediating its sites with environmental contamination and is party to various administrative proceedings, legal actions, and tort claims that may result in settlements or decisions adverse to the Federal Government. The source of remediation requirements to determine the environmental liability is based on compliance with federal, state, or local environmental laws and regulations. The major federal laws covering environmental response, cleanup, and monitoring are the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (Pub. L. 96-510) and the Resource Conservation and Recovery Act (Pub. L. 94-580).

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

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

18. Other Liabilities

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

As of September 30, 2016:	Current	Non-Current	Total
Intragovernmental:			
Due to the General Fund (Note 14)	$ 3,098	$ -	$ 3,098
Accrued FECA Liability (Note 14)	133	269	402
Advances from Others	65	-	65
Employer Benefits Contributions and Payroll Taxes	223	-	223
Other Intragovernmental Liabilities	199	8	207
Total Intragovernmental Other Liabilities	**$ 3,718**	**$ 277**	**$ 3,995**
Public:			
Accrued Payroll and Benefits (See B. below)	$ 2,114	$ -	$ 2,114
Deferred Revenue and Advances from Others (See B. below)	2,568	1,227	3,795
Insurance Liabilities (Note 20)	3,068	128	3,196
Refunds and Drawbacks	190	-	190
Contingent Legal Liabilities (Note 21)	77	292	369
Capital Lease Liability (Note 19)	5	27	32
Other	2,432	20	2,452
Total Other Liabilities with the Public	**$ 10,454**	**$ 1,694**	**$ 12,148**
Total Other Liabilities	**$ 14,172**	**$ 1,971**	**$ 16,143**

As of September 30, 2015:	Current	Non-Current	Total
Intragovernmental:			
Due to the General Fund	$ 3,361	$ -	$ 3,361
Accrued FECA Liability	135	250	385
Advances from Others	58	-	58
Employer Benefits Contributions and Payroll Taxes	163	-	163
Other Intragovernmental Liabilities	13	11	24
Total Intragovernmental Other Liabilities	**$ 3,730**	**$ 261**	**$ 3,991**
Public:			
Accrued Payroll and Benefits (See B. below)	$ 2,136	$ -	$ 2,136
Deferred Revenue and Advances from Others (See B. below)	2,495	1,005	3,500
Insurance Liabilities (Note 20)	660	83	743
Refunds and Drawbacks	166	-	166
Contingent Legal Liabilities (Note 21)	82	372	454
Capital Lease Liability (Note 19)	4	31	35
Other	1,839	14	1,853
Total Other Liabilities with the Public	**$ 7,382**	**$ 1,505**	**$ 8,887**
Total Other Liabilities	**$ 11,112**	**$ 1,766**	**$ 12,878**

A. Intragovernmental Other Liabilities

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

Workers' Compensation. Claims incurred for the benefit of Department employees under FECA are administered by DOL and are ultimately paid by the Department. The accrued FECA liability represents money owed for current claims. Reimbursement to DOL for payments made occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intragovernmental liability are made available to the Department as part of its annual appropriation from Congress in the year in which the reimbursement takes place. Workers' compensation expense was $217 million and $196 million, respectively, for the fiscal years ended September 30, 2016 and 2015.

B. Other Liabilities with the Public

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

	2016	2015
Accrued Funded Payroll and Benefits	$ 640	$ 724
Accrued Unfunded Leave	1,372	1,316
Unfunded Employment Related Liabilities	2	4
Other	100	92
Total Accrued Payroll and Benefits	**$ 2,114**	**$ 2,136**

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

	2016	2015
USCIS Application Fees	$ 1,230	$ 1,007
FEMA Unearned NFIP Premium	2,549	2,449
Advances from Others	16	44
Total Deferred Revenue	**$ 3,795**	**$ 3,500**

USCIS's deferred revenue relates to fees received at the time of filing for applications or petitions for immigration and naturalization benefits that are recognized when the application or petition is adjudicated. FEMA's deferred revenue relates to unearned NFIP premiums recognized over the life of the insurance policy.

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

19. Leases

A. Operating Leases

The Department leases various facilities and equipment accounted for as operating leases. Leased items consist of offices, warehouses, vehicles, and other equipment. The majority of office space occupied by the Department is either owned by the Federal Government or is leased by GSA from commercial sources. The estimated future lease payments for noncancellable operating leases are based on lease contract terms, considering payments made during the year ended September 30, 2016.

As of September 30, 2016, estimated future minimum lease commitments for noncancellable operating leases were as follows (in millions):

	Land and Buildings
FY 2017	$ 479
FY 2018	432
FY 2019	368
FY 2020	344
FY 2021	308
After FY 2021	2,131
Total Future Minimum Lease Payments	**$ 4,062**

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

B. Capital Leases

The Department maintains capital leases for buildings 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 cancellable depending on future funding. Substantially all of the net present value of capital lease obligations and software license agreements will be funded from future sources. As of September 30, the summary of assets under capital lease was as follows (in millions):

	2016	2015
Land and Buildings	$ 68	$ 68
Software	11	11
Vehicles and Equipment	1	-
Accumulated Amortization	(57)	(54)
Assets under Capital Lease, Net	**$ 23**	**$ 25**

The estimated future lease payments for capital leases are based on lease contract terms. As of September 30, 2016, estimated future minimum lease payments under capital leases, were as follows (in millions):

	Land and Buildings
FY 2017	$ 6
FY 2018	6
FY 2019	6
FY 2020	6
FY 2021	6
After FY 2021	9
Total Future Minimum Lease Payments	39
Less: Imputed Interest and Executory Costs	(8)
Total Capital Lease Liability	**$ 31**

20. Insurance Liabilities

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

	2016	2015
Beginning Balance	$ 743	$ 596
Change in Incurred Losses		
Change from Events of the Current Year	4,758	805
Change from Events of Prior Years	212	292
Less: Amounts Paid During Current Period		
Paid for Events of the Current Year	(1,942)	(596)
Paid for Events of Prior Years	(575)	(354)
Total Insurance Liability	**$ 3,196**	**$ 743**

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

Insurance liabilities increased in FY 2016 due to significant storms and flooding that impacted the southern region of the United States in August 2016.

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

21. Commitments and Contingent Liabilities

A. Legal Contingent Liabilities

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

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

		Estimated Range of Loss	
	Accrued Liabilities	Lower End	Upper End
FY 2016			
Probable	$ 369	$ 369	$ 551
Reasonably Possible		$ 521	$ 1,075
FY 2015			
Probable	$ 454	$ 454	$ 1,307
Reasonably Possible		$ 741	$ 1,199

The claims above generally relate to the Federal Tort Claims Act (Pub. L. 79-601), OSLTF, personnel grievances, and various customs laws and regulations. The estimated contingent liability recorded in the accompanying financial statements as of September 30, 2016, and 2015, was $369 million and $454 million, respectively, of which $4 million and $9 million, respectively, was funded.

As of September 30, 2016, and 2015, legal claims exist for which the potential range of loss could not be determined; however, the total amount claimed is not material to the financial statements. In addition, other claims exist for which the amount claimed and the potential range of loss could not be determined.

B. Duty and Trade Refunds

There are various trade-related matters that fall under the jurisdiction of other federal agencies, such as the Department of Commerce, which may result in refunds of duties, taxes, and fees from CBP refunds and drawbacks. Until a decision is reached by the other federal agencies, CBP does not have sufficient information to estimate a contingent liability amount. All known duty and trade refunds as of September 30, 2016 and 2015 have been recorded.

C. Loaned Aircraft and Equipment

The Department is generally liable to DOD for damage or loss to aircraft on loan to CBP and vessels on loan to the USCG. As of September 30, 2016, CBP had 16 aircraft on loan from DOD with a total replacement value of up to $368 million. As of September 30, 2016, the USCG had four vessels on loan from DOD with a total replacement value of $48 million.

D. Other Contractual Arrangements

In addition to future lease commitments disclosed in Note 19, the Department is committed under contractual agreements for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all Department activities are disclosed in Note 28. In accordance with the National Defense Authorization Act for Fiscal Year 1991 (Pub. L. 101-510), the Department is required to automatically cancel obligated and unobligated balances of appropriated funds five years after a fund expires. Obligations that have not been paid at the time an appropriation is cancelled may be paid from an unexpired appropriation that is available for the same general purpose. As of September 30, 2016, the Department estimates total payments related to cancelled appropriations to be $194 million, of which $112 million for contractual arrangements may require future funding.

TSA maintains six letters of intent (LOIs) for modifications to airport facilities in which TSA uses cost-sharing agreements with the airports to modify the facilities for checked baggage screening projects. An LOI, though not a binding commitment of federal funding, represents TSA's intent to provide the agreed-upon funds in future years if the agency receives sufficient appropriations to cover the agreement. TSA received $200 million and $200 million in FY 2016 and FY 2015, respectively, to fund LOIs. These funds are available for payment to the airports upon approval by TSA of an invoice for the modification costs incurred. As of September 30, 2016, TSA has received invoices or documentation for costs incurred totaling $85 million for the invoices that have not yet been paid.

22. *Funds from Dedicated Collections*

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

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

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

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

Funds from Dedicated Collections (in millions) (page 1 of 2)

	Customs User Fees	Sport Fish Restoration Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Balance Sheet as of September 30, 2016								
ASSETS								
Fund Balance with Treasury	$ 330	$ 15	$ 2,381	$ 1,280	$ 25	$ 1,430	$ 1,448	$ 6,909
Investments, Net	-	1,911	-	1,175	4,973	-	1	8,060
Accounts Receivable	332	109	9	1	1,804	-	95	2,350
Other	-	-	489	701	2	8	26	1,226
Total Assets	**$ 662**	**$ 2,035**	**$ 2,879**	**$ 3,157**	**$ 6,804**	**$ 1,438**	**$ 1,570**	**$ 18,545**
LIABILITIES								
Other Liabilities	$ 15	$ 1,243	$ 1,631	$ 28,984	$ 189	$ 245	$ 78	$ 32,385
Total Liabilities	**$ 15**	**$ 1,243**	**$ 1,631**	**$ 28,984**	**$ 189**	**$ 245**	**$ 78**	**$ 32,385**
NET POSITION								
Cumulative Results of Operations	$ 647	$ 792	$ 1,248	$ (25,827)	$ 6,615	$ 1,193	$ 1,492	$ (13,840)
Total Liabilities and Net Position	**$ 662**	**$ 2,035**	**$ 2,879**	**$ 3,157**	**$ 6,804**	**$ 1,438**	**$ 1,570**	**$ 18,545**
Statement of Net Cost for the Year Ended September 30, 2016								
Gross Program Costs	$ 677	$ 116	$ 3,375	$ 6,777	$ (25)	$ 181	$ 1,366	$ 12,467
Less: Earned Revenue	-	-	(3,256)	(4,411)	(356)	(250)	(714)	(8,987)
Net Cost of Operations	**$ 677**	**$ 116**	**$ 119**	**$ 2,366**	**$ (381)**	**$ (69)**	**$ 652**	**$ 3,480**
Statement of Changes in Net Position for the Year Ended September 30, 2016								
Net Position Beginning of Period	$ 549	$ 801	$ 1,200	$ (23,463)	$ 4,782	$ 1,216	$ 1,338	$ (13,577)
Net Cost of Operations	(677)	(116)	(119)	(2,366)	381	69	(652)	(3,480)
Non-exchange Revenue	763	630	-	-	1,511	-	389	3,293
Other	12	(523)	167	2	(59)	(92)	417	(76)
Change in Net Position	98	(9)	48	(2,364)	1,833	(23)	154	(263)
Net Position, End of Period	**$ 647**	**$ 792**	**$ 1,248**	**$ (25,827)**	**$ 6,615**	**$ 1,193**	**$ 1,492**	**$ (13,840)**

Funds from Dedicated Collections (in millions) (page 2 of 2)

	Customs User Fees	Sport Fish Restoration Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Balance Sheet as of September 30, 2015								
ASSETS								
Fund Balance with Treasury	$ 242	$ 21	$ 2,213	$ 1,959	$ 46	$ 1,477	$ 1,283	$ 7,241
Investments, Net	-	1,940	-	282	4,275	-	1	6,498
Accounts Receivable	320	108	3	2	637	-	83	1,153
Other	-	-	379	534	-	13	36	962
Total Assets	**$ 562**	**$ 2,069**	**$ 2,595**	**$ 2,777**	**$ 4,958**	**$ 1,490**	**$ 1,403**	**$ 15,854**
LIABILITIES								
Other Liabilities	$ 13	$ 1,268	$ 1,395	$ 26,240	$ 176	$ 274	$ 65	$ 29,431
Total Liabilities	**$ 13**	**$ 1,268**	**$ 1,395**	**$ 26,240**	**$ 176**	**$ 274**	**$ 65**	**$ 29,431**
NET POSITION								
Cumulative Results of Operations	$ 549	$ 801	$ 1,200	$ (23,463)	$ 4,782	$ 1,216	$ 1,338	$ (13,577)
Total Liabilities and Net Position	**$ 562**	**$ 2,069**	**$ 2,595**	**$ 2,777**	**$ 4,958**	**$ 1,490**	**$ 1,403**	**$ 15,854**
Statement of Net Cost for the Year Ended September 30, 2015								
Gross Program Costs	$ 621	$ 105	$ 3,097	$ 2,810	$ 386	$ 220	$ 1,129	$ 8,368
Less: Earned Revenue	-	-	(3,032)	(4,022)	(124)	(249)	(713)	(8,140)
Net Cost of Operations	**$ 621**	**$ 105**	**$ 65**	**$ (1,212)**	**$ 262**	**$ (29)**	**$ 416**	**$ 228**
Statement of Changes in Net Position for the Year Ended September 30, 2015								
Net Position Beginning of Period	$ 439	$ 779	$ 1,136	$ (24,678)	$ 4,629	$ 1,286	$ 872	$ (15,537)
Net Cost of Operations	(621)	(105)	(65)	1,212	(262)	29	(416)	(228)
Non-exchange Revenue	722	637	-	1	525	-	242	2,127
Other	9	(510)	129	2	(110)	(99)	640	61
Change in Net Position	110	22	64	1,215	153	(70)	466	**1,960**
Net Position, End of Period	**$ 549**	**$ 801**	**$ 1,200**	**$ (23,463)**	**$ 4,782**	**$ 1,216**	**$ 1,338**	**$ (13,577)**

Customs User Fees

When signed in April 1986, COBRA (Pub. L. 99-272) authorized 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. These fees are deposited into Customs User Fees accounts (Treasury Account Fund Symbol (TAFS) 705695.30 and 70X5695).

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 nonreimbursable 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. The fees for certain customs services are provided by 19 USC 58c. The authority to use these funds is contained in the annual DHS Appropriations Act.

Sport Fish Restoration and Boating Trust Fund

The SFRBTF, previously known as the Aquatic Resources Trust Fund, was created by Section 1016 of the Deficit Reduction Act of 1984 (Pub. L. 98-369). Two funds were created under this Act, the Boating Safety Account and the Sport Fish Restoration Account. The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (Pub. L. 109-59) later amended the Deficit Reduction Act of 1984 by combining the Boating Safety and the Sport Fish Restoration accounts into the SFRBTF. The SFRBTF has been the source of budget authority for the boat safety program for many years through the transfer of appropriated funds. The SFRBTF is a Treasury-managed fund and provides funding to states and other entities to promote boating safety and conservation of U.S. recreational waters.

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

The most recent reauthorizations of SFRBTF and expenditure of Boating Safety funds for the National Recreational Boating Safety Program were enacted in 2012 in the Moving Ahead for Progress in the 21st Century Act (Pub. L. 112-141), in 2005 in the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (Pub. L. 109-59) and the Sportfishing and Recreational Boating Safety Amendments Act of 2005 (Pub. L. 109-74).

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) (Pub. L. 82-414, Section 286(m)) provides for the collection of fees at a level that will ensure recovery of the costs of providing adjudication and naturalization services, including the costs of providing similar services without charge to asylum applicants and other immigrants. The INA also states that the fees may recover administrative costs. This revenue remains available to provide immigration and naturalization benefits and allows the collection, safeguarding, and accounting for 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 IEFA (TAFS 70X5088). In addition, USCIS provides specific services to other federal agencies, such as production of border crossing cards for the Department of State, that result in the collection of other revenue arising from intragovernmental activities.

National Flood Insurance Program

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

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

The National Flood Insurance Reform Act of 1994 (Pub. L. 103-325) reinforced the objective of using insurance as the preferred mechanism for disaster assistance by expanding mandatory flood insurance purchase requirements and by 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 in force.

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

The Biggert-Waters Flood Insurance Reform Act of 2012 (Pub. L. 112-141) amended the National Flood Insurance Act of 1968 to extend the NFIP, and the financing for it, through FY 2017, and establishes a National Flood Insurance Reserve Fund to meet the expected future obligations of the NFIP.

The Homeowner Flood Insurance Affordability Act (Pub. L. 113-89) amended or repealed certain provisions of the Biggert-Waters Flood Insurance Reform Act, and makes additional program changes to other aspects of the program not previously covered by the Biggert-Waters Flood Insurance Reform Act. The Homeowner Flood Insurance Affordability Act lowers the recent rate increases on some policies, prevents some future rate increases, and implements a surcharge on all policyholders.

The NFIP is an insurance program for which the Department pays claims to policyholders that experience flood damage due to flooding within the NFIP rules and regulations. The write your own (WYO) companies that participate in the program have authority to use departmental funds (revenue and other financing sources) to respond to the obligations to the policyholders. Congress has mandated that the premium collections be used only to pay claims and claims-related loss adjustment expenses caused by flooding.

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

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

Oil Spill Liability Trust Fund

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

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

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

Deepwater Horizon Oil Spill. On April 20, 2010, the offshore drilling platform, Deepwater Horizon, exploded and sank 52 miles southeast of Venice, Louisiana. An estimated 4.9 million barrels of oil leaked from the sunken platform's undersea ruptured pipe. The states of Louisiana, Mississippi, Alabama, Florida, and Texas were affected by the spill.

Liability for the spill is joint and severable under the OPA, 33 USC 2701 *et seq*. The OPA and the Clean Water Act, 33 USC 1321 *et. seq,* direct the responsible parties to conduct cleanup operations and pay claims for damages specified by the OPA. Under the OPA, the responsible party is liable for costs associated with the containment or cleanup of the spill, property damage, loss of government revenue, loss of profits or earning capacity, loss of subsistence use of natural resources, increased state and local public service costs, and damages to natural resources resulting from the spill. Currently, the Federal Government is in litigation with the responsible parties to recover natural resource damages and civil penalties due to the government under the Clean Water Act. Although the Consent Decree has been approved, USCG has the authority to bill BP for response costs incurred since July 2, 2015 (the cutoff date for the Consent Decree), until all USCG federal on-scene coordinators response actions are complete.

In addition, the OPA and applicable federal legislation and regulations provide the USCG with broad responsibilities and authorities regarding oil spill response oversight on the navigable waters of the United States. As FOSC, the USCG directs and coordinates the response activities of all federal agencies.

The OSLTF provides emergency funding resources to the FOSC for oil removal, and to federal trustees for initial natural resource damage assessment activities, up to amounts specified under OPA Section 6002(b) (33 USC 2752(b)). In June 2010, the President of the United States signed into law an amendment to Section 6002(b) allowing multiple budgetary authority advances from the OSLTF for the Deepwater Horizon oil spill response and federal natural resource damage assessment activities limited only by the statutory per-incident cap set forth in 26 USC 9509(c)(2).

On April 4, 2016, the U.S. District Court approved a settlement plan between the Department of Justice and BP. The consent decree requires BP to pay a penalty to the U.S. Government under a 15-year payment plan that requires annual payments beginning on April 4, 2017. Of the total amount owed to the U.S. Government, the OSLTF will receive a total of $935 million plus interest. The final installment payment will be the accrued interest of $60 million. In addition, BP was assessed $374 million for unpaid costs and damages paid from the OSLTF through July 2, 2015, to be paid in annual installments over the next eight years beginning in 2016. No interest will be accrued on this amount.

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

Aviation Security Capital Fund

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

All Other Funds from Dedicated Collections

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

- 70_0715: Radiological Emergency Preparedness Program, Federal Emergency Management Agency, Department of Homeland Security; 117 Stat. 516
- 70X0715: Radiological Emergency Preparedness Program, Federal Emergency Management Agency, Department of Homeland Security; 117 Stat. 516
- 70X5089: U.S. Customs and Border Protection, Land Border Inspection Fees, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70_5087: U.S. Customs and Border Protection, Immigration User Fees, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5087: U.S. Customs and Border Protection, Immigration User Fees, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5126: Breach Bond/Detention Fund, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5378: Student and Exchange Visitor Program, Border and Transportation Security, Department of Homeland Security; 110 Stat. 3009-706, Sec. (e)(4)(B)
- 70X5382: Immigration User Fee Account, BICE, Department of Homeland Security; 116 Stat. 2135
- 70_5389: H-1B and L Fraud Prevention and Detection Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 118 Stat. 3357, Sec. 426(b)(1)
- 70X5389: H-1B and L Fraud Prevention and Detection Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 118 Stat. 3357, Sec. 426(b)(1)
- 70X5390: Unclaimed Checkpoint Money, Transportation Security Administration, Department of Homeland Security; 118 Stat. 1317-1318, Sec.515(a)
- 70X5451: Immigration Enforcement Account, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5542: Detention and Removal Operations, U.S. Immigration and Customs Enforcement, Department of Homeland Security; 8 USC 1356(m)-(n); Pub. L. 107-296, Sec. 476c
- 70X5545: Airport Checkpoint Screening Fund, Transportation Security Administration, Department of Homeland Security; Pub. L. 110-161

- 70X5595: Electronic System for Travel Authorization (ESTA) Fees, U.S. Customs and Border Protection, Department of Homeland Security; Pub. L. 110-53, 121 Stat. 344; Pub. L. 111-145, 124 Stat. 56
- 70_5694: User Fees, Small Airports, U.S. Customs Service, Department of Homeland Security; 116 Stat. 2135
- 70X5694: User Fees, Small Airports, U.S. Customs Service, Department of Homeland Security; 116 Stat. 2135
- 70X8244: Gifts and Donations, Department Management, Department of Homeland Security; 116 Stat. 2135
- 70X8533: General Gift Fund, U.S. Coast Guard, Department of Homeland Security; 116 Stat. 2135
- 70X8870: Harbor Maintenance Fee Collection, U.S. Customs Service, Department of Homeland Security; 116 Stat. 2135
- 70_5106: H-1 B Nonimmigrant Petitioner Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 116 Stat. 2135
- 70X5106: H-1 B Nonimmigrant Petitioner Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 116 Stat. 2135
- 70X8360: Gifts and Bequests, Federal Law Enforcement Training Centers, Department of Homeland Security; 116 Stat. 2135
- 70X5543: International Registered Traveler Program Fund, U.S. Customs and Border Protection, Department of Homeland Security; 121 Stat. 2091-2092
- 70_5710: Coast Guard Housing Fund, U.S. Coast Guard, Department of Homeland Security, 14 USC 687(c)
- 70X5710: Coast Guard Housing Fund, U.S. Coast Guard, Department of Homeland Security, 14 USC 687(c)
- 70X5569: Asia-Pacific Economic Cooperation Business Travel Cards, U.S. Customs and Border Protection, Department of Homeland Security, 125 Stat. 551
- 70X4363: Enhanced Inspectional Services, U.S. Customs and Border Protection, Department of Homeland Security, 127 Stat. 378
- 70X5702: 9-11 Response and Biometric Exit Account, U.S. Customs and Border Protection, Department of Homeland Security, 129 Stat. 3006

23. Net Costs by Sub-Organization and Major Missions

The Department's Statement of Net Cost displays DHS costs and revenue and groups the missions and the focus area described in the DHS FY 2014-2018 Strategic Plan into four major missions:

- *Foster a Safe and Secure Homeland*, includes Missions 1, 2, and 4;
- *Enforce and Administer Our Immigration Laws* includes Mission 3;
- *Strengthen National Preparedness and Resilience* includes Mission 5; and
- *Mature and Strengthen Homeland Security* consists of the focus area.

Net cost of operations is the gross (i.e., total) cost incurred by the Department, excluding any gains and losses from changes in long-term assumptions used to measure federal civilian and military employee pensions, ORB, and OPEB, including veterans' compensation, less any exchange (i.e., earned) revenue. Gains and losses from changes in long-term assumptions used to measure federal civilian and military employee pensions, ORB, and OPEB are reported on a separate line item in accordance with SFFAS No. 33.

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.

To more accurately reflect the actual costs incurred by each of the major missions, the Department is presenting the net costs by Component and major missions, net of eliminations.

The "All Other" column reports net costs for the following Components: DNDO, FLETC, NPPD, OHA, OIG, S&T, USSS, I&A, and OPS.

Net Costs by Sub-Organization and Major Missions
For the Year Ended September 30, 2016 (in millions) (page 1 of 2)

Major Missions	**FEMA**	**CBP**	**USCG**	**ICE**	**TSA**	**USCIS**	**MGMT**	**All Other**	**Total**
Foster a Safe and Secure Homeland									
Intragovernmental Gross Cost	$ -	$ 3,466	$ 1,165	$ 648	$ 1,840	$ -	$ -	$ 1,303	$ 8,422
Public Gross Cost	-	8,539	6,585	1,377	6,131	-	-	4,007	26,639
Gross Cost	-	12,005	7,750	2,025	7,971	-	-	5,310	35,061
Intragovernmental Revenue	-	(49)	(116)	(32)	-	-	-	(1,067)	(1,264)
Public Revenue Earned	-	(148)	(334)	(115)	(4,044)	-	-	(4)	(4,645)
Less Revenue Earned	-	(197)	(450)	(147)	(4,044)	-	-	(1,071)	(5,909)
Net Cost	**-**	**11,808**	**7,300**	**1,878**	**3,927**	**-**	**-**	**4,239**	**29,152**
Enforce and Administer Our Immigration Laws									
Intragovernmental Gross Cost	$ -	$ 596	$ 172	$ 903	$ -	$ 1,133	$ 1	$ 13	$ 2,818
Public Gross Cost	-	1,254	979	3,691	-	2,239	4	148	8,315
Gross Cost	-	1,850	1,151	4,594	-	3,372	5	161	11,133
Intragovernmental Revenue	-	(9)	(17)	(15)	-	(10)	-	(5)	(56)
Public Revenue Earned	-	(28)	(49)	(34)	-	(3,756)	-	-	(3,867)
Less Revenue Earned	-	(37)	(66)	(49)	-	(3,766)	-	(5)	(3,923)
Net Cost	**-**	**1,813**	**1,085**	**4,545**	**-**	**(394)**	**5**	**156**	**7,210**
Strengthen National Preparedness and Resilience									
Intragovernmental Gross Cost	$ 1,201	$ -	$ 163	$ 1	$ -	$ -	$ -	$ 149	$ 1,514
Public Gross Cost	16,677	-	931	3	-	-	-	179	17,790
Gross Cost	17,878	-	1,094	4	-	-	-	328	19,304
Intragovernmental Revenue	(47)	-	(15)	-	-	-	-	(3)	(65)
Public Revenue Earned	(4,443)	-	(44)	-	-	-	-	(1)	(4,488)
Less Revenue Earned	(4,490)	-	(59)	-	-	-	-	(4)	(4,553)
Net Cost	**13,388**	**-**	**1,035**	**4**	**-**	**-**	**-**	**324**	**14,751**

Net Costs by Sub-Organization and Major Missions
For the Year Ended September 30, 2016 (in millions) (page 2 of 2)

Major Missions	FEMA	CBP	USCG	ICE	TSA	USCIS	MGMT	All Other	Total
Mature and Strengthen Homeland Security									
Intragovernmental Gross Cost	$ -	$ -	$ 232	$ 8	$ -	$ 10	$ 542	$ 207	$ 999
Public Gross Cost	-	-	1,338	31	-	19	1,062	457	2,907
Gross Cost	-	-	1,570	39	-	29	1,604	664	3,906
Intragovernmental Revenue	-	-	(5)	-	-	-	(2)	(22)	(29)
Public Revenue Earned	-	-	(46)	-	-	(38)	-	(1)	(85)
Less Revenue Earned	-	-	(51)	-	-	(38)	(2)	(23)	(114)
Net Cost	**-**	**-**	**1,519**	**39**	**-**	**(9)**	**1,602**	**641**	**3,792**
Total Department of Homeland Security									
Intragovernmental Gross Cost	$ 1,201	$ 4,062	$ 1,732	$ 1,560	$ 1,840	$ 1,143	$ 543	$ 1,672	$ 13,753
Public Gross Cost	16,677	9,793	9,833	5,102	6,131	2,258	1,066	4,791	55,651
Gross Cost	17,878	13,855	11,565	6,662	7,971	3,401	1,609	6,463	69,404
Intragovernmental Revenue	(47)	(58)	(153)	(47)	-	(10)	(2)	(1,097)	(1,414)
Public Revenue Earned	(4,443)	(176)	(473)	(149)	(4,044)	(3,794)	-	(6)	(13,085)
Less Revenue Earned	(4,490)	(234)	(626)	(196)	(4,044)	(3,804)	(2)	(1,103)	(14,499)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	**13,388**	**13,621**	**10,939**	**6,466**	**3,927**	**(403)**	**1,607**	**5,360**	**54,905**
(Gain)/Loss on Pension, ORB, or OPEB Assumption	-	-	191	-	-	-	-	43	234
NET COST OF OPERATIONS	**$ 13,388**	**$ 13,621**	**$ 11,130**	**$ 6,466**	**$ 3,927**	**$ (403)**	**$ 1,607**	**$ 5,403**	**$ 55,139**

Net Costs by Sub-Organization and Major Missions
For the Year Ended September 30, 2015 (in millions) (page 1 of 2)

Major Missions	FEMA	CBP	USCG	ICE	TSA	USCIS	MGMT	All Other	Total
Foster a Safe & Secure Homeland									
Intragovernmental Gross Cost	$ -	$ 3,379	$ 1,249	$ 629	$ 1,756	$ -	$ -	$ 1,341	$ 8,354
Public Gross Cost	-	7,990	6,893	1,304	5,830	-	-	3,991	26,008
Gross Cost	-	11,369	8,142	1,933	7,586	-	-	5,332	34,362
Intragovernmental Revenue	-	(39)	(126)	(30)	(1)	-	-	(1,050)	(1,246)
Public Revenue Earned	-	(135)	(138)	(120)	(3,896)	-	-	(6)	(4,295)
Less Revenue Earned	-	(174)	(264)	(150)	(3,897)	-	-	(1,056)	(5,541)
Net Cost	**-**	**11,195**	**7,878**	**1,783**	**3,689**	**-**	**-**	**4,276**	**28,821**
Enforce and Administer Our Immigration Laws									
Intragovernmental Gross Cost	$ -	$ 595	$ 174	$ 826	$ -	$ 1,018	$ 1	$ 17	2,631
Public Gross Cost	-	1,219	963	3,176	-	2,109	4	109	7,580
Gross Cost	-	1,814	1,137	4,002	-	3,127	5	126	10,211
Intragovernmental Revenue	-	(7)	(18)	(12)	-	(19)	-	(1)	(57)
Public Revenue Earned	-	(24)	(19)	(36)	-	(3,573)	-	(1)	(3,653)
Less Revenue Earned	-	(31)	(37)	(48)	-	(3,592)	-	(2)	(3,710)
Net Cost	**-**	**1,783**	**1,100**	**3,954**	**-**	**(465)**	**5**	**124**	**6,501**
Strengthen National Preparedness and Resilience									
Intragovernmental Gross Cost	$ 1,075	$ -	$ 176	$ 1	$ -	$ -	$ -	$ 115	$ 1,367
Public Gross Cost	12,249	-	975	2	-	-	-	157	13,383
Gross Cost	13,324	-	1,151	3	-	-	-	272	14,750
Intragovernmental Revenue	(52)	-	(16)	-	-	-	-	(1)	(69)
Public Revenue Earned	(4,066)	-	(21)	-	-	-	-	(1)	(4,088)
Less Revenue Earned	(4,118)	-	(37)	-	-	-	-	(2)	(4,157)
Net Cost	**9,206**	**-**	**1,114**	**3**	**-**	**-**	**-**	**270**	**10,593**

Net Costs by Sub-Organization and Major Missions
For the Year Ended September 30, 2015 (in millions) (page 2 of 2)

Major Missions	FEMA	CBP	USCG	ICE	TSA	USCIS	MGMT	All Other	Total
Mature and Strengthen Homeland Security									
Intragovernmental Gross Cost	$ -	$ -	$ 221	$ 3	$ -	$ 10	$ 385	$ 142	$ 761
Public Gross Cost	-	-	1,205	8	-	18	1,000	483	2,714
Gross Cost	-	-	1,426	11	-	28	1,385	625	3,475
Intragovernmental Revenue	-	-	(6)	-	-	-	(3)	(23)	(32)
Public Revenue Earned	-	-	(40)	-	-	(36)	-	(1)	(77)
Less Revenue Earned	-	-	(46)	-	-	(36)	(3)	(24)	(109)
Net Cost	**-**	**-**	**1,380**	**11**	**-**	**(8)**	**1,382**	**601**	**3,366**
Total Department of Homeland Security									
Intragovernmental Gross Cost	$ 1,075	$ 3,974	$ 1,820	$ 1,459	$ 1,756	$ 1,028	$ 386	$ 1,615	$ 13,113
Public Gross Cost	12,249	9,209	10,036	4,490	5,830	2,127	1,004	4,740	49,685
Gross Cost	13,324	13,183	11,856	5,949	7,586	3,155	1,390	6,355	62,798
Intragovernmental Revenue	(52)	(46)	(166)	(42)	(1)	(19)	(3)	(1,075)	(1,404)
Public Revenue Earned	(4,066)	(159)	(218)	(156)	(3,896)	(3,609)	-	(9)	(12,113)
Less Revenue Earned	(4,118)	(205)	(384)	(198)	(3,897)	(3,628)	(3)	(1,084)	(13,517)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	**9,206**	**12,978**	**11,472**	**5,751**	**3,689**	**(473)**	**1,387**	**5,271**	**49,281**
(Gain)/Loss on Pension, ORB, or OPEB Assumption	-	-	3,401	-	-	-	-	645	4,046
NET COST OF OPERATIONS	**$ 9,206**	**$ 12,978**	**$ 14,873**	**$ 5,751**	**$ 3,689**	**$ (473)**	**$ 1,387**	**$ 5,916**	**$ 53,327**

24. Apportionment Categories of New Obligations and Upward Adjustments: Direct versus 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, 2016:	**Apportionment Category A**	**Apportionment Category B**	**Exempt from Apportionment**	**Total**
New Obligations and Upward Adjustments – Direct	$ 42,387	$ 25,070	$ 1,932	$ 69,389
New Obligations and Upward Adjustments – Reimbursable	2,811	2,435	-	5,246
Total New Obligations and Upward Adjustments	**$ 45,198**	**$ 27,505**	**$ 1,932**	**$ 74,635**

Year Ended September 30, 2015:	**Apportionment Category A**	**Apportionment Category B**	**Exempt from Apportionment**	**Total**
New Obligations and Upward Adjustments – Direct	$ 41,143	$ 22,467	$ 3,082	$ 66,692
New Obligations and Upward Adjustments – Reimbursable	3,852	2,308	-	6,160
Total New Obligations and Upward Adjustments	**$ 44,995**	**$ 24,775**	**$ 3,082**	**$ 72,852**

25. Available Borrowing Authority

For the Years Ended September 30:	2016	2015
Beginning Borrowing Authority	$ 7	$ 7
Current Year Borrowing Authority Realized	7,469	6,448
Decrease in Current Year Borrowing Authority Realized	(7,468)	(6,437)
Net Current Year Borrowing Authority Realized	1	11
Less: Borrowing Authority Converted to Cash	(1)	(11)
Less: Borrowing Authority Withdrawn	(2)	-
Ending Borrowing Authority	**$ 5**	**$ 7**

FEMA has borrowing authority to pay insurance claims as part of the NFIP and to finance CDLs under DADLP. Borrowing authority is budget authority enacted by law to permit an agency to borrow money and then obligate and disburse against amounts borrowed for a specified purpose. As of September 30, 2016, and 2015, net current year borrowing authority realized presented in the SBR totaled $1 million and $11 million, respectively.

FEMA annually requests borrowing authority to cover the principal amount of direct loans during the fiscal year not to exceed $400 million less the subsidy due from the DADLP account. The available borrowing authority of $5 million is to cover current obligations for CDLs still disbursing.

FEMA is also authorized to borrow from Treasury up to $30,425 million to fund the payment of flood insurance claims and claims-related expenses of the NFIP. While the authorizing legislation does provide a cap for amounts that can be borrowed without further authorization, the amounts borrowed at any time are not predetermined, and authority is used only as needed to pay existing obligations for claims and expenses. Insurance premiums collected are used to pay insurance claims and to repay borrowings.

As of both September 30, 2016, and 2015, FEMA had drawn from Treasury $23,000 million, leaving $7,425 million available to be borrowed.

26. Legal Arrangements Affecting the Use of Unobligated Balances

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

Included in the cumulative results of operations and Fund Balance with Treasury are special funds of $1,095 million and $867 million at September 30, 2016, and 2015, respectively, that represents the Department's authority to assess and collect user fees relating to merchandise and passenger processing; to assess and collect fees associated with services performed at certain small airports or other facilities; to retain amounts needed to offset costs associated with collecting duties; and taxes and fees for the Government of Puerto Rico. These special fund balances are restricted by law in their use to offset specific costs incurred by the Department. Part of the passenger fees in the COBRA User Fees Account, totaling approximately $292 million and $209 million at September 30, 2016 and 2015, respectively, is restricted by law in its use to offset specific costs incurred by the Department.

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

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

The table below documents the material differences between the FY 2015 Statement of Budgetary Resources and the actual amounts reported for FY 2015 in the Budget of the Federal Government. Since the FY 2016 financial statements will be reported prior to the release of the Budget of the Federal Government, DHS is reporting for FY 2015 only. Typically, the Budget of the Federal Government with the FY 2016 actual data is published in February of the subsequent year. Once published, the FY 2016 actual data will be available on the OMB website.

	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
FY 2015 Actual Balances per the FY 2017 Budget of the U.S. Government (in millions)	**$ 83,691**	**$ 69,967**	**$ 9,978**	**$ 52,439**
Reconciling Items:				
Accounts that are expired that are not included in Budget of the United States	1,725	-	-	-
Distributed Offsetting Receipts not included in the Budget of the United States, Net Outlays	-	-	-	(9,978)
Refunds and drawbacks not included in the Budget of the United States	2,680	2,680	-	2,665
Byrd Program (Continued Dumping and Subsidy Offset) not included in the Budget of the United States	296	91	-	91
Miscellaneous Differences	682	114	-	(9)
Per the 2015 Statement of Budgetary Resources	**$ 89,074**	**$ 72,852**	**$ 9,978**	**$ 45,208**

The Miscellaneous Differences amount includes adjustments to obligations reported on the Statement of Budgetary Resources but not included in the President's Budget.

28. *Undelivered Orders, Unpaid, End of Period*

An unpaid undelivered order exists when a valid obligation has occurred and funds have been reserved but the goods or services have not been received by the Department. Undelivered orders for the periods ended September 30, 2016 and 2015, were $41,756 million and $39,481 million, respectively.

29. Custodial Revenue

The Department collects revenue from a variety of duties, excise taxes, and various other fees. Revenue collections primarily result from current fiscal year activity. Current Taxes, Duties, Trade Receivables, Net are collected within 90 days of the assessment. Non-entity revenue reported on the Department's Statement of Custodial Activity includes duties, excise taxes, and various non-exchange fees collected by CBP. CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. For additional information, see Note 1.X., Exchange and Non-exchange Revenue.

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

1. **Duties:** amounts collected on imported goods collected on behalf of the Federal Government.

2. **User fees:** amounts designed to maintain U.S. harbors and to defray the cost of other miscellaneous service programs.

3. **Excise taxes:** amounts collected on imported distilled spirits, wines, tobacco products, and other miscellaneous taxes collected on the behalf of the Federal Government.

4. **Fines and penalties:** amounts collected for violations of laws and regulations.

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

Tax disbursements from the refunds and drawbacks account, broken out by revenue type and by tax year, were as follows for the fiscal years ended September 30, 2016 and 2015 (in millions):

2016 Tax Disbursements	Tax Year			
	2016	2015	2014	Prior Years
Total tax refunds and drawbacks disbursed	**$ 1,020**	**$ 343**	**$ 149**	**$ 355**

2015 Tax Disbursements	Tax Year			
	2015	2014	2013	Prior Years
Total tax refunds and drawbacks disbursed	**$ 1,659**	**$ 860**	**$ 182**	**$ 280**

Total tax refunds and drawbacks disbursed consist of non-exchange customs duties revenue refunded. The disbursements include interest payments of $31 million and $23 million for the fiscal years ended September 30, 2016 and 2015, respectively.

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

30. Reconciliation of Net Cost of Operations (Proprietary) to Budget

The Reconciliation of Net Cost of Operations to Budget reconciles the Department's Resources Used to Finance Activities (first section), which consists of the budgetary basis of accounting Net Obligations plus the proprietary basis of accounting Other Resources, to the proprietary basis of accounting Net Cost of Operations.

The second section, Resources Used to Finance Items Not Part of the Net Cost of Operations, includes items such as undelivered orders, unfilled customer orders, and capitalized assets. These transactions are reversed out because they affect budgetary obligations, but not the proprietary net cost of operations.

The third section, Components of Net Cost of Operations that Will Not Require or Generate Resources in the current period, includes items such as increases in environmental liability and depreciation. These transactions are added because they affect proprietary net cost of operations, but not the budgetary obligations. The third section's subsection, Components Requiring or Generating Resources in future periods, includes costs reported in the current period that are included in the Liabilities Not Covered by Budgetary Resources reported in Note 14.

The reconciliations of net cost of operations to budget for FY 2016 and FY 2015 are as follows:

	2016	2015
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments (Note 24)	$ 74,635	$ 72,852
Less: Spending Authority from Offsetting Collections and Recoveries	(14,041)	(15,123)
Obligations Net of Offsetting Collections and Recoveries	60,594	57,729
Less: Offsetting Receipts	(10,911)	(9,978)
Net Obligations	49,683	47,751
Other Resources		
Donations and Forfeiture of Property	1	-
Transfers In (Out) without Reimbursement	(1)	(34)
Imputed Financing from Costs Absorbed by Others	1,333	1,286
Other	1,807	1,702
Net Other Resources Used to Finance Activities	3,140	2,954
Total Resources Used to Finance Activities	**$ 52,823**	**$ 50,705**

	2016	2015
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided	$ 2,234	$ 2,390
Resources that Fund Expenses Recognized in Prior Periods	426	254
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 Subsidies	(4)	46
Other	(2,813)	(2,541)
Resources that Finance the Acquisition of Assets	2,241	2,380
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	2,035	2,578
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	4,119	5,107
TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS	**$ 48,704**	**$ 45,598**
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	$ 56	$ -
Increase in Exchange Revenue Receivable from the Public	(55)	(181)
Increase in Insurance Liability	2,453	147
Increase in Actuarial Pension Liability	1,894	4,771
Increase in Actuarial Health Insurance Liability	-	187
Increase in Other	203	-
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	4,551	4,924
Components not Requiring or Generating Resources		
Depreciation and Amortization	2,147	1,941
Revaluation of Assets or Liabilities	209	787
Other	(472)	77
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	1,884	2,805
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	6,435	7,729
NET COST OF OPERATIONS	**$ 55,139**	**$ 53,327**

31. Subsequent Events

In October 2016, Hurricane Matthew made landfall in the south-Atlantic region of the United States, impacting the physical landscape, the people and the region's economy. At this time, FEMA is conducting response and recovery activities in fulfillment of its mission. Funding for these activities is covered by the Disaster Relief Fund and the National Flood Insurance Program. This event will have no effect on the actuarial liabilities recorded on the FY 2016 financial statements.

In addition, various categories of USCG's PP&E assets—such as piers, buildings, and coastal navigation equipment—and FLETC facilities in the area suffered damages from Hurricane Matthew. To date, DHS is still performing damage assessments and formulating cost estimates.

Required Supplementary Stewardship Information

Unaudited, see accompanying Independent Auditors' Report

Stewardship Investments

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 to highlight the extent of investments that are made for long-term benefit. The Department's expenditures (including carryover funds expended in FY 2016) in human capital, research and development, and non-federal physical property are shown below.

1. Investments in Research and Development

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

	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012
S&T	$ 878	$ 785	$ 654	$ 485	$ 684
DNDO	24	76	74	66	74
USCG	21	25	25	21	23
TSA	-	-	1	1	2
Total Research & Development	$ 923	$ 886	$ 754	$ 573	$ 783

S&T

S&T has a research and development portfolio investment that is integrated throughout its divisions. S&T conducts research in many areas to support the Department's missions to defend against chemical and biological threats, protect infrastructure and transportation systems from explosives, determine the motivations and intents behind terrorist attacks, prepare the nation to respond to large and small scale events, and protect the critical systems that run our financial and electrical power systems, to name a few. S&T established, as directed by the Secretary, Integrated Product Teams consisting of senior officials from DHS Components to coordinate and prioritize all research and development efforts, and provide the ability to review and endorse departmental research and development investment strategies. S&T also develops standards for the acquisition process, educates the next-generation workforce and conducts testing and evaluation activities to further increase the security of the Nation.

- *Apex Programs; Screening at Speed*. S&T is leading efforts to provide technological innovation, at lower costs for passenger and baggage screening, with a focus on improving the customer experience while remaining ahead of continually evolving threats.
- *Cyber Security/Information Analytics; Internet Measurement and Attack Modeling.* S&T research is leading to develop new tools and techniques for internet mapping to detect and mitigate malicious behavior. The tools and techniques provide for the identification and

protection of critical infrastructure, embedded devices, and other parts of cyberspace capability gaps, as well as specific items identified by customers.

- *Border Security; People Screening.* S&T continues efforts to introduce process and technology improvements to CBP traveler inspection operations in order to strengthen traveler vetting and facilitate lawful and legitimate travel. S&T analyzes current entry operations, and implement technologies and process enhancements to existing airport operations, to increase CBP's capability to expedite and strengthen screening of travelers entering the United States.

<u>DNDO</u>

DNDO is responsible for conducting an aggressive, evolutionary, and transformational research and development program to generate and improve technologies to detect nuclear and other radioactive materials. DNDO's basic, applied and development research efforts seek to achieve dramatic advancements in technologies to enhance our nuclear detection and forensics capabilities. These developments may also reduce the cost and operational burden of using advanced technology in the field to maintain an enhanced level of protection.

- *Basic.* DNDO focuses on fundamental, high-risk, long-term research aimed at developing greatly improved radiation detector materials such as semiconductors and scintillators that are highly sensitive, selective, low-cost, and rugged.
- *Applied Research*. DNDO continues to develop and demonstrate the next generation of tools for pattern analysis and methods to articulate whether or not measurements from questioned samples can be linked and included or excluded from specific families of signatures.
- *Research and Development.* Algorithm Improvement program continues to develop a set of benchmarks for improving the performance of radiological/nuclear detection algorithms and increasing detection and identification speed and accuracy, including evaluating infrastructure requirements. DNDO continues to evaluate current and next generation technology solutions and to assess replacement technologies for currently deployed fixed and mobile radiation portal monitors.

<u>USCG</u>

The USCG Research, Development, Test and Evaluation (RDT&E) program allows the USCG to sustain critical mission capabilities through basic and applied research, development, test and evaluation of ideas, applications, products and processes. It also contributes to the Coast Guard forming partnerships within DHS, DOD, as well as other Federal and private research organizations. The purpose of the RDT&E program is to help identify and examine existing or impending problems in the Coast Guard's operational, regulatory, and support programs and make improvements through solutions based on scientific and technological advances.

- The RDT&E program completed the detection phase of research concerning the detection and mitigation of oil within the water column. This phase of the research supported development of a guide for the federal on-scene coordinators that can be used to determine what instrumentation for oil detection is best used under different conditions and types of oil. This will help mitigate environmental impacts of spilled oil by providing the federal

on-scene coordinators a capability to effectively detect and subsequently mitigate subsurface, spilled oil.
- The RDT&E Program participated in Arctic Chinook, a full scale mass rescue field exercise. Nearly 30 role players portraying 200 injured passengers and crewmembers from the fictitious adventure cruise ship Arctic Chinook were transported from a simulated remote Arctic location outside of Kotzebue, Alaska, to higher care facilities in Kotzebue and Nome. The RDT&E Program's focus was demonstrating the newly developed incident management tool called Next Generation Incident Command System, as well as testing line of sight and beyond line of sight communications capabilities.
- The RDT&E Program completed testing of an unmanned maritime system, consisting of a platform (an 11-meter rigid-hulled inflatable boat); a sensor suite including radar, Electo-Optical/Infrared, and video cameras, and Automatic Identification System; a command and control trailer; and a high-bandwidth communication package. The platform simulated maritime domain awareness patrols in the Gulf of Mexico while operated remotely from the command and control trailer at Station South Padre Island. The high bandwidth communications, transmitting real-time the radar and other sensor pictures from the platform to the command and control trailer, achieved a range of over 30 miles. The test showed that unmanned systems may provide better, persistent maritime domain awareness but require further development to reduce manpower intensiveness and increase range beyond line-of-sight.

TSA

TSA invested in applied research projects for enhancing screening and detection capabilities and technologies between FY 2012 and FY 2015.

2. Investments in Human Capital

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

	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012
FEMA	$ 101	$ 101	$ 101	$ 97	$ 98
S&T	4	3	7	9	9
Total Human Capital	$ 105	$ 104	$ 108	$ 106	$ 107

FEMA

FEMA has invested resources in educational, training, and professional development in the following areas:

- *National Fire Academy (NFA).* Developed by FEMA to promote the professional development of the fire and emergency response community and its allied professionals. The NFA also develops and delivers educational and training courses with a national focus to supplement and support state and local fire service training programs. In FY 2016, the

NFA provided resident and non-resident training to 94,654 state and local emergency responders.

- *Emergency Management Institute (EMI).* Serves as the national focal point for the development and delivery of emergency management training to enhance the capabilities of federal, state, local, and tribal government officials, volunteer organizations, and the public and private sectors to minimize the impact of disasters on the American public. Particular emphasis is placed on governing doctrine such as the National Response Framework, National Incident Management System, and the National Preparedness Guidelines. In FY 2016, EMI provided resident and non-resident training to 1,051,136 state and local emergency responders.
- *Center for Domestic Preparedness (CDP).* Federal training center that specializes in providing advanced hands-on, all-hazards training for emergency responders. Its purpose is the "preparation of first responders by building, sustaining, and improving their capability to respond to all hazards." The CDP offers training to America's federal, state, local, tribal, and territorial emergency responders—to include responders working in rural jurisdictions—in their missions to prevent, deter, respond to, and recover from terrorist acts, especially those involving weapons of mass destruction or hazardous materials. The CDP is the only congressionally chartered weapons of mass destruction training center for civilians.

S&T

S&T issues grants to Minority Serving Institutions, Scientific Leadership Awards, and institutional awards to support the development of Homeland Security Science, Technology, Engineering and Mathematics (HS-STEM) teaching initiatives, and curriculum development in HS-STEM fields. In FY 2013 and prior fiscal years, S&T also issued HS-STEM Career Development grants.

3. Investments in Non-Federal Physical Property

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

	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012
TSA	$ 271	$ 311	$ 215	$ 421	$ 226
FEMA[1]	9	20	40	86	101
DNDO	-	-	6	4	-
Total Non-Federal Physical Property	$ 280	$ 331	$ 261	$ 511	$ 327

TSA

- *Airport Improvement Program*. To help facilitate Explosive Detection System (EDS) installations, TSA purchases and installs in-line EDS equipment through a variety of funding mechanisms, including congressionally authorized Letters of Intent (LOI). LOIs are used to reimburse airports for the Federal Government's share of allowable costs for the

[1] *Historical amounts were updated to reflect corrections made since the last report.*

modifications. TSA maintains six LOIs to provide for the airport facility modifications necessary to accommodate in-line EDS screening solutions.

- *Airport Renovation Program*. Under this program, TSA employs other transaction agreements (OTA) to fund the installation of integrated and non-integrated EDS and explosive trace detection equipment as well as improvements to be made to the existing systems in the baggage handling area. These OTAs establish the respective cost-sharing obligations and other responsibilities of TSA and the specific entity (board, port, or authority) conducting the installations or improvements. All work will be completed in order to achieve compliance with the Aviation and Transportation Security Act, Pub. L. 107-71.
- *American Recovery and Reinvestment Act (ARRA).* TSA entered into OTAs with 36 airports in FY 2009 and FY 2010 for checked baggage inspection systems and/or closed circuit television cameras. These agreements are funded by the ARRA. As of September 30, 2015, all OTAs funded through ARRA are completed. ARRA funds are now canceled.

FEMA

Assistance to Firefighters Grant (AFG). The goal is to provide grants to state and local governments to meet the firefighting and emergency response needs of fire departments and nonaffiliated emergency medical service organizations. Since 2001, AFG helps firefighters and other first responders to obtain critically needed equipment, protective gear, emergency vehicles, training, and other resources needed to protect the public and emergency personnel from fire and related hazards.

DNDO

Radiation Detection Equipment. As a result of the conclusion of the Advanced Spectroscopic Portal C radiation detection equipment programs, DNDO transferred two radiation portal monitors to the State of California and one radiation portal monitor to the State of Mississippi in FY 2014.

Required Supplementary Information

Unaudited, see accompanying Independent Auditors' Report

1. Deferred Maintenance and Repairs

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

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

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

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

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

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

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

Significant Changes from Prior Year. As of September 30, 2016, $1,169 million in deferred maintenance and repairs for active assets was estimated to return active real property assets to acceptable operating condition. This is an overall increase of $113 million.

Deferred maintenance and repairs for FY 2016, by asset class, consisted of (in millions):

	Ending	Beginning
Active:		
Buildings, Structures, and Facilities	$ 1,042	$ 926
Furniture, Fixtures, and Equipment	75	64
Other General PP&E	15	29
Heritage assets	34	34
Total Active	**$ 1,166**	**$ 1,053**
Inactive and Excess:		
Buildings, Structures, and Facilities	$ 1	$ 1
Heritage assets	2	2
Total Inactive and Excess	**$ 3**	**$ 3**
Total Deferred Maintenance	**$ 1,169**	**$ 1,056**

2. Combining Statement of Budgetary Resources

The principal Statement of Budgetary Resources combines the availability, status, and outlays of the Department's budgetary resources during FY 2016 and FY 2015. The following table provides the Statement of Budgetary Resources disaggregated by DHS Components rather than by major budget account because the Department manages its budget at the Component level.

Combining Statement of Budgetary Resources by Sub-Organization Accounts
For the Year Ended September 30, 2016 (in millions) (page 1 of 2)

	CBP	USCG	USCIS	FEMA	FLETC	ICE	OHA	DeptOps	NPPD	USSS	S&T	TSA	TOTAL
BUDGETARY RESOURCES													
Unobligated Balance Brought Forward, October 1	$ 1,735	$ 1,363	$ 1,105	$ 8,227	$ 166	$ 748	$ 31	$ 664	$ 644	$ 172	$ 210	$ 1,157	**$ 16,222**
Recoveries of Prior Year Unpaid Obligations	466	225	104	903	16	144	8	105	235	34	40	264	**2,544**
Other Changes in Unobligated Balance	(34)	(155)	(20)	(112)	(3)	(77)	(5)	(27)	(33)	(19)	(4)	(164)	**(653)**
Unobligated Balance from Prior Year Budget Authority, Net	2,167	1,433	1,189	9,018	179	815	34	742	846	187	246	1,257	**18,113**
Appropriations	15,064	11,012	3,607	11,075	244	6,173	125	1,847	1,632	2,165	779	4,921	**58,644**
Borrowing Authority (Note 25)	-	-	-	1	-	-	-	-	-	-	-	-	**1**
Spending Authority from Offsetting Collections	2,091	467	39	3,697	124	167	45	837	1,319	21	44	2,504	**11,355**
TOTAL BUDGETARY RESOURCES	**$ 19,322**	**$ 12,912**	**$ 4,835**	**$ 23,791**	**$ 547**	**$ 7,155**	**$ 204**	**$ 3,426**	**$ 3,797**	**$ 2,373**	**$ 1,069**	**$ 8,682**	**$ 88,113**
STATUS OF BUDGETARY RESOURCES													
New Obligations and Upward Adjustments (Note 24)	$ 17,779	$ 10,739	$ 3,684	$ 18,968	$ 405	$ 6,431	$ 175	$ 2,694	$ 3,044	$ 2,212	$ 785	$ 7,719	**$ 74,635**
Unobligated Balance, End Of Year													
Apportioned, Unexpired	960	1,827	215	4,546	10	526	1	632	562	90	240	676	**10,285**
Exempt from Apportionment, Unexpired	-	2	-	-	-	-	-	-	-	-	-	-	**2**
Unapportioned, Unexpired	413	-	906	77	116	2	-	3	1	-	13	7	**1,538**
Unexpired Unobligated Balance, End of Year	1,373	1,829	1,121	4,623	126	528	1	635	563	90	253	683	**11,825**
Expired Unobligated Balance, End of Year	170	344	30	200	16	196	28	97	190	71	31	280	**1,653**
Total Unobligated Balance, End of Year	**1,543**	**2,173**	**1,151**	**4,823**	**142**	**724**	**29**	**732**	**753**	**161**	**284**	**963**	**13,478**
TOTAL BUDGETARY RESOURCES	**$ 19,322**	**$ 12,912**	**$ 4,835**	**$ 23,791**	**$ 547**	**$ 7,155**	**$ 204**	**$ 3,426**	**$ 3,797**	**$ 2,373**	**$ 1,069**	**$ 8,682**	**$ 88,113**

Combining Statement of Budgetary Resources by Sub-Organization Accounts
For the Year Ended September 30, 2016 (in millions) (page 2 of 2)

	CBP	USCG	USCIS	FEMA	FLETC	ICE	OHA	DeptOps	NPPD	USSS	S&T	TSA	TOTAL
CHANGE IN OBLIGATED BALANCE													
Unpaid Obligations:													
Unpaid Obligations, Brought Forward, October 1	3,573	4,911	1,104	21,865	977	1,731	133	1,810	1,723	535	1,884	3,596	**43,842**
New Obligations and Upward Adjustments	17,779	10,739	3,684	18,968	405	6,431	175	2,694	3,044	2,212	785	7,719	**74,635**
Outlays, Gross	(16,986)	(10,816)	(3,476)	(14,997)	(480)	(6,579)	(172)	(2,492)	(2,773)	(2,150)	(958)	(7,716)	**(69,595)**
Actual Transfers, Unpaid Obligations, Net	-	-	-	(10)	-	-	-	-	-	-	-	-	**(10)**
Recoveries of Prior Year Unpaid Obligations	(466)	(225)	(104)	(903)	(16)	(144)	(8)	(105)	(235)	(34)	(40)	(264)	**(2,544)**
Unpaid Obligations, End of Year	3,900	4,609	1,208	24,923	886	1,439	128	1,907	1,759	563	1,671	3,335	**46,328**
Uncollected Payments:													
Uncollected Customer Payments From Federal Sources, Brought Forward, October 1	(144)	(139)	(14)	(86)	(1,040)	(89)	(12)	(893)	(186)	(25)	(154)	(1)	**(2,783)**
Change in Uncollected Customer Payments from Federal Sources	(32)	2	(6)	(12)	107	(13)	(3)	176	(13)	3	43	(11)	**241**
Uncollected Customer Payments from Federal Sources, End of Year	(176)	(137)	(20)	(98)	(933)	(102)	(15)	(717)	(199)	(22)	(111)	(12)	**(2,542)**
Obligated Balance, Start of Year, Net	**3,429**	**4,772**	**1,090**	**21,779**	**(63)**	**1,642**	**121**	**917**	**1,537**	**510**	**1,730**	**3,595**	**41,059**
Obligated Balance, End of Year, Net	**3,724**	**4,472**	**1,188**	**24,825**	**(47)**	**1,337**	**113**	**1,190**	**1,560**	**541**	**1,560**	**3,323**	**43,786**
BUDGET AUTHORITY AND OUTLAYS, NET													
Budget Authority , Gross	17,155	11,479	3,646	14,773	368	6,340	170	2,684	2,951	2,186	823	7,425	**70,000**
Actual Offsetting Collections	(2,060)	(556)	(36)	(3,716)	(232)	(159)	(42)	(1,016)	(1,307)	(27)	(87)	(2,501)	**(11,739)**
Change in Uncollected Customer Payments from Federal Sources	(32)	2	(6)	(12)	107	(13)	(3)	176	(13)	3	43	(11)	**241**
Recoveries of Prior Year Paid Obligations	-	87	3	33	1	6	-	2	1	3	-	8	**144**
Budget Authority, Net	**15,063**	**11,012**	**3,607**	**11,078**	**244**	**6,174**	**125**	**1,846**	**1,632**	**2,165**	**779**	**4,921**	**58,646**
Outlays	16,986	10,816	3,476	14,997	480	6,579	172	2,492	2,773	2,150	958	7,716	**69,595**
Actual Offsetting Collections	(2,060)	(556)	(36)	(3,716)	(232)	(159)	(42)	(1,016)	(1,307)	(27)	(87)	(2,501)	**(11,739)**
Outlays, Net	14,926	10,260	3,440	11,281	248	6,420	130	1,476	1,466	2,123	871	5,215	**57,856**
Distributed Offsetting Receipts	(4,243)	(87)	(3,964)	(824)	-	(211)	-	(42)	(22)	-	-	(1,518)	**(10,911)**
Agency Outlays, Net	**10,683**	**10,173**	**(524)**	**10,457**	**248**	**6,209**	**130**	**1,434**	**1,444**	**2,123**	**871**	**3,697**	**46,945**

3. *Statement of Custodial Activity*

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

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

For FY 2016 and FY 2015, CBP had the legal right to collect $3,042 million and $3,245 million of receivables, respectively. In addition, there were $3,297 million and $2,146 million representing records still in the protest phase for FY 2016 and FY 2015, respectively. CBP recognized as write-offs $38 million and $37 million, respectively, of assessments that the Department had statutory authority to collect at September 30, 2016 and 2015, but have no future collection potential. Most of this amount represents duties, taxes, and fees.

4. Risk Assumed Information

The Department has performed an analysis of the contingencies associated with the unearned premium reserve for the NFIP. This FY 2016 estimate represents losses that might occur in FY 2017 on policies that were in-force as of September 30, 2016. The calculation uses the current estimate of the long-term average loss year, which includes an estimate of a rare but catastrophic loss year. A large portion of the long-term average loss year is derived from those catastrophic years. The underlying calculation estimates the amount of subsidy in the total rates, removes the expense load, and applies the results to the unearned premium reserve. The risk assumed liability as of September 30, 2016 is $0.

The NFIP subsidizes rates for some classes of policyholders. These subsidized rates produce a premium less than the loss and loss adjustment expenses expected to be incurred during the long-term average loss year described above. Accordingly, there is a risk that paid flood losses during the remainder of the term for those subsidized policies will exceed the unearned premium liability.

Actual flood losses are highly variable from year to year. For the majority of years, the unearned premium reserve for the NFIP is adequate to pay the losses and expenses associated with the unearned premium. In those years with catastrophic flooding, the reserve and the average across all years will be inadequate because of the subsidies in premium levels.

Independent Auditors’ Report

OFFICE OF INSPECTOR GENERAL

Independent Auditors' Report on DHS' FY 2016 Financial Statements and Internal Control over Financial Reporting

Homeland Security

November 14, 2016

OIG-17-12

DHS OIG HIGHLIGHTS

Independent Auditors' Report on DHS' FY 2016 Financial Statements and Internal Control over Financial Reporting

November 14, 2016

Why We Did This Report

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

What We Recommend

KPMG LLP made 51 recommendations to address three material weakness and three significant deficiencies, including issues related to information technology and financial system functionality; financial reporting; and property, plant and equipment.

For Further Information:
Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

The independent public accounting firm KPMG LLP (KPMG) has issued an unmodified (clean) opinion on DHS' consolidated financial statements. KPMG noted that the financial statements present fairly, in all material respects, DHS' financial position as of September 30, 2016.

KPMG issued an adverse opinion on DHS' internal control over financial reporting of its financial statements as of September 30, 2016. The report identifies six significant deficiencies in internal control; three of which are considered material weaknesses. The material weaknesses are in information technology controls and financial system functionality; financial reporting; and property, plant, and equipment. The report also identifies instances of noncompliance with four laws and regulations.

Management's Response

The Department concurred with the independent auditors' conclusions and indicated that management will continue to implement corrective actions to improve financial management and internal control.

www.oig.dhs.gov OIG-17-12

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

November 14, 2016

MEMORANDUM FOR: The Honorable Jeh C. Johnson
Secretary

FROM: John Roth
Inspector General

SUBJECT: *Independent Auditors' Report on DHS' FY 2016 Financial Statements and Internal Control over Financial Reporting*

The attached report presents the results of an integrated audit of the Department of Homeland Security's (DHS) fiscal year (FY) 2016 financial statements and internal control over financial reporting. This is a mandatory audit required by the *Chief Financial Officers Act of 1990,* as amended by the *Department of Homeland Security Financial Accountability Act of 2004.* This report is incorporated into the Department's FY 2016 *Agency Financial Report*. We contracted with the independent public accounting firm KPMG LLP (KPMG) to conduct the audit.

The Department continued to improve financial management in FY 2016 and achieved an unmodified (clean) opinion on all financial statements. However, KPMG issued an adverse opinion on DHS' internal control over financial reporting because of material weaknesses in internal control.

Summary

KPMG identified six significant deficiencies in internal control, of which three are considered material weaknesses. DHS also identified the same material weaknesses in the *Secretary's Assurance Statement*.

The following are the three significant deficiencies in internal control considered to be material weaknesses, the three other significant deficiencies in internal control, and the four laws and regulations with which KPMG identified instances of DHS' noncompliance:

Significant Deficiencies Considered To Be Material Weaknesses

- Information Technology Controls and Financial System Functionality
- Financial Reporting
- Property, Plant, and Equipment

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OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Other Significant Deficiencies

- Entity-Level Controls
- Grants Management
- Custodial Revenue and Refunds and Drawback

Laws and Regulations with Identified Instances of Noncompliance

- *Federal Managers' Financial Integrity Act of 1982* (FMFIA)
- *Single Audit Act Amendments of 1996*
- *Anti-deficiency Act (ADA)*
- *Federal Financial Management Improvement Act of 1996*

Moving DHS' Financial Management Forward

The Department continued its commitment to identifying areas for improvement, developing and monitoring corrective actions, and establishing and maintaining effective internal controls over financial reporting this past fiscal year. Looking forward, the Department must continue remediation efforts, and stay focused, in order to sustain its clean opinion on its financial statements and obtain an unqualified (clean) opinion on its internal control over financial reporting.

*****

KPMG is responsible for the attached Independent Auditors' Report dated November 14, 2016, and the conclusions expressed in the report. To ensure the quality of the audit work performed, we evaluated KPMG's qualifications and independence, reviewed the approach and planning of the audit, monitored the progress of the audit at key points, reviewed and accepted KPMG's audit report, and performed other procedures that we deemed necessary. Additionally, we provided oversight of the audit of financial statements and certain accounts and activities conducted at key components within the Department. Our review, as differentiated from an audit in accordance with generally accepted governments auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or internal control or provide conclusions on compliance with laws and regulations. Our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted governments auditing standards.

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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 public website.

We request that the Department provide us with a corrective action plan that demonstrates progress in addressing the report's recommendations.

Please call me with any questions, or your staff may contact Maureen Duddy, Deputy Assistant Inspector General for Audits, at (617) 565-8723.

Attachment

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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Appendixes

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of Homeland Security (DHS or Department), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements.* Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Homeland Security as of September 30, 2016 and 2015, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Notes 1T, 15, and 25 of the consolidated financial statements, the Department had intragovernmental debt of approximately $23 billion used to finance the *National Flood Insurance Program* (NFIP) as of both September 30, 2016 and 2015, respectively. Due to the subsidized nature of the NFIP, the Department has determined that future insurance premiums, and other anticipated sources of revenue, may not be sufficient to repay this debt. Legislation will need to be enacted to provide funding to repay or forgive the debt. Our opinion is not modified with respect to this matter.

Other Matters

Interactive Data

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

Required Supplementary Information

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

Other Information

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

Opinion on Internal Control Over Financial Reporting

We have audited DHS's internal control over financial reporting as of September 30, 2016, based on criteria established in the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States. DHS's management is responsible for maintaining effective internal control over financial reporting and for its evaluation of the effectiveness of internal control over financial reporting, included in the accompanying *Secretary's Assurance Statement* presented in the Management's Discussion and Analysis. Our responsibility is to express an opinion on the DHS's internal control over financial reporting based on our audit.

KPMG

We conducted our audit in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the internal control audit requirements included in OMB Bulletin No. 15-02. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. The following material weaknesses described in the accompanying Exhibit I have been identified and included in the *Secretary's Assurance Statement*.

A. Information Technology Controls and Financial System Functionality
B. Financial Reporting
C. Property, Plant, and Equipment

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, DHS has not maintained effective internal control over financial reporting as of September 30, 2016, based on the criteria established in the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States. We do not express an opinion or any other form of assurance on management's evaluation and assurances made in the *Secretary's Assurance Statement*.

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

D. Entity-Level Controls
E. Grants Management
F. Custodial Revenue and Refunds and Drawbacks

We considered the material weaknesses and significant deficiencies identified above in determining the nature, timing, and extent of audit tests applied in our audit of the fiscal year 2016 consolidated financial statements, and these findings do not affect our unmodified opinion on the consolidated financial statements.

This *Opinion on Internal Control Over Financial Reporting* is intended solely for the information and use of DHS management, the DHS Office of Inspector General, the OMB, the U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by *Government Auditing Standards*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DHS's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02, and which are described in the accompanying Exhibit III.

G. *Federal Managers' Financial Integrity Act of 1982*
H. *Single Audit Act Amendments of 1996*
I. *Antideficiency Act*

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed instances, as described in finding J of Exhibit III, where DHS's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

***Purpose of the Other Reporting Required by* Government Auditing Standards**

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

DHS's Response to Findings

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

KPMG LLP

Washington, DC
November 14, 2016

Independent Auditors' Report
Introduction to Exhibits on Internal Control and Compliance and Other Matters

The internal control weaknesses in financial reporting, and findings related to compliance with certain laws, regulations, contracts, and grant agreements presented herein were identified during our audits of the U.S. Department of Homeland Security's (Department or DHS) financial statements as of September 30, 2016 and internal control over financial reporting. Our findings are presented in three Exhibits:

Exhibit I Findings that individually or in aggregate are considered material weaknesses in internal control over financial reporting affecting the DHS consolidated financial statements.

Exhibit II Findings that individually or in aggregate are considered significant deficiencies in internal control over financial reporting, which are less severe than a material weakness, yet important enough to merit attention of DHS management and others in positions of DHS oversight.

Exhibit III Instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters that are required to be reported under *Government Auditing Standards* or Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.

Criteria *Index of Financial Reporting and Internal Control Criteria*

The determination of which findings rise to the level of a material weakness or significant deficiency is based on an evaluation of how deficiencies identified in all Components, considered in aggregate, may affect the DHS financial statements as of September 30, 2016.

We have reported the following three material weaknesses, three significant deficiencies, and four instances of noncompliance at the Department level in FY 2016:

Material Weaknesses (Exhibit I):

Comment	Financial Statement Area
A	**IT Controls and Financial System Functionality**
B	**Financial Reporting**
C	**Property, Plant, and Equipment**

Significant Deficiencies (Exhibit II):

Comment	Financial Statement Area
D	**Entity-Level Controls**
E	**Grants Management**
F	**Custodial Revenue and Refunds and Drawbacks**

Compliance and Other Matters (Exhibit III):

Comment	Compliance Area
G	***Federal Managers' Financial Integrity Act of 1982***
H	***Single Audit Act Amendments of 1996***
I	***Antideficiency Act***
J	***Federal Financial Management Improvement Act of 1996***

The criteria supporting our findings, such as references from technical accounting standards, various rules and regulations, including requirements issued by the OMB and the U.S. Treasury, and internal Departmental and Component directives, are presented in the *Index of Financial Reporting and Internal Control Criteria* behind Exhibit III.

All Components of DHS, as defined in Note 1A – *Reporting Entity* to the financial statements, were considered in the scope of our integrated audit of the DHS financial statements and internal control over financial reporting of those financial statements.

i.1

Independent Auditors' Report
Exhibit I – Material Weaknesses

I-A Information Technology Controls and Financial System Functionality

Background: Information technology controls are a critical subset of an entity's internal control. They are typically categorized as either general IT controls (GITCs) or business process application controls (application controls). GITCs operate over all or a large portion of systems and represent the foundation of an IT control structure. They are applied at the entity-wide, system, and application level and include controls over security management, access, configuration management, segregation of duties, and contingency planning. Effective GITCs are necessary to create the foundation for the effective operation of application controls. Application controls are those controls that directly relate to specific IT applications and ensure the complete and accurate processing of data.

During our FY 2016 assessment of GITCs and application controls, we noted that although DHS made some progress in remediating IT findings we reported in FY 2015, new findings were noted in FY 2016. While management maintained appropriate focus on system modernization efforts, management did not take appropriate corrective action to address ongoing pervasive deficiencies that we identified in multiple information systems and reported to management as a material weakness for several years. The following internal control deficiencies were, collectively, deemed a material weakness in internal control over financial reporting.

Conditions Related to GITCs: We noted a greater number of control deficiencies in GITCs this year that represent an overall elevated risk to the Department. Deficiencies indicated in this Exhibit are a cross-section of GITC deficiencies identified across the Department. We noted the following:

Access Controls:

- Policies and procedures for managing and monitoring access to key financial applications and underlying system software components, including those owned and operated on behalf of the Department by third-party service organizations, were not consistently or completely developed and formally documented.
- Initial authorization and periodic recertification of application, database, and operating system user, service, and generic accounts (including emergency, temporary, developer, and migrator access) were inadequate, inconsistent, or in violation of the principles of least privilege and segregation of duties.
- Technical controls over logical access to key financial applications and underlying system software components were not consistently implemented in accordance with DHS requirements. Technical controls included password and inactivity requirements and account and data protection security configurations.
- Controls over the generation, review, analysis, and protection of application, database, and operating system audit logs were not fully implemented or were inconsistently performed.
- Access privileges for transferred and/or terminated employees and contractors were not always consistently or timely removed from financial systems and general support systems. Controls related to review and revocation of system access were not always implemented or finalized.

Configuration Management:

- Policies and procedures for the configuration management process were not consistently or completely developed and formally documented.
- Vulnerability management activities were not consistently performed. These activities include performing internal scans of financial applications and system software, monitoring vulnerabilities identified, and implementing vendor-recommended patches to address known vulnerabilities.
- Documentation of configuration management changes were not always maintained in accordance with DHS policy.

I.1

Independent Auditors' Report
Exhibit I – Material Weaknesses

Segregation of Duties:

- Implementation of segregation of duties for IT and financial management personnel with access to financial systems across several platforms and environments (including development and production environments) was inadequate or incomplete.

Conditions Related to Financial System Functionality: During our audit, we also evaluated and considered the impact of system functionality on financial reporting. In recent years, we noted that limitations in the Department's financial systems' functionality inhibit its ability to implement and maintain effective internal control, and to effectively and efficiently process and report financial data. Many key financial and feeder systems have not been substantially updated since being inherited from legacy agencies over a decade ago. Additionally, many key DHS financial systems were not compliant with Federal financial management system requirements as defined by FFMIA and OMB Circular No. A-123, Appendix D, *Compliance with Federal Financial Management Improvement Act of 1996*. Our observations related to pervasive functionality issues noted across DHS systems are described below.

We noted financial system functionality issues in the following general areas:

- System software supporting key financial applications, feeder systems, and general support systems either lacked the required functionality to implement effective controls or were outdated and no longer supported by the respective vendors. This resulted in unmitigated vulnerabilities that exposed underlying data to potential unauthorized and undetected access and exploitation.

- GITCs and financial process areas were implemented or supported by manual processes or outdated or decentralized systems or records management processes with limited automated capabilities. These limitations introduced a high risk of error and resulted in inconsistent, incomplete, or inaccurate control execution and supporting documentation.

- Multiple Components' financial system controls were not fully effective to provide readily auditable transaction populations without substantial manual intervention and additional supporting information, which increased the risk of error.

In addition to these general areas, system limitations contributed to deficiencies noted in multiple financial process areas across the Department. For example, system configurations and posting logic deficiencies limited the effectiveness of controls to accurately record certain activity at the transaction level, identify funding variances, or prevent or detect and correct excessive refund claims. In some cases, Components implemented manual processes to compensate for these limitations; however, these manual processes were more prone to error and increased the risk that financial data and transactions were improperly recorded in the respective systems.

Cause: The control deficiencies described in this Exhibit stem from a number of systemic root causes across the Department. In many cases, inadequately designed and implemented, or ineffectively operating controls were caused by the following: resource limitations; ineffective or inadequate management oversight, awareness and training; reduced efforts on remediating legacy system processes due to competing priorities related to the modernization of the financial information system; the complex, highly interrelated yet decentralized nature of systems and system components; a lack of communication between offices in the same organization regarding GITC ownership; a lack of continual self-review and risk assessments performed over GITCs; and/or error-prone manual processes. In some cases, cost-prohibitive options for vendor support limited system development activity to "break/fix" and sustainment activities.

Effect: Deficiencies related to access controls and segregation of duties increase the risk that current employees, separated employees, or contractors may obtain unauthorized or inappropriate access to financial and support systems or data. Such access could lead to unauthorized activities or inappropriate disclosures of sensitive data. Deficiencies related to configuration management increase the risk that unauthorized or inappropriate changes to systems will be applied and go undetected by management, resulting in lower assurance that information systems will operate as intended and that data is reliable, valid, and complete.

The conditions supporting our findings collectively limit DHS's ability to process, store, and report financial data in a manner that ensures accuracy, confidentiality, integrity, and availability. Some of the weaknesses could result in material errors in DHS's financial data that are not detected in a timely manner through the normal course of business. Because of the presence of IT control and financial system functionality weaknesses, there is added pressure on mitigating controls to operate effectively. Such mitigating controls often were not implemented (see Comment **I-B** *Financial Reporting*). However, when implemented, mitigating controls often were more manually focused, increasing the risk of human error that could materially affect the financial statements. Deficiencies identified related to design, implementation and operating effectiveness of manual mitigating controls contributed to the findings reported in Exhibits I, II, and III. Furthermore, due to these GITC deficiencies, we were unable to rely on application controls and information produced by the entity and used by management in the operation of certain key manual controls throughout the Department.

DHS management continued to recognize the need to modernize its financial systems and strengthen controls over legacy systems. Until legacy IT issues are addressed and updated IT solutions are implemented, DHS is reliant on compensating controls and other complex manual workarounds to support the Department's IT environment and financial reporting processes.

Criteria: We do not present relevant criteria for IT controls and financial system functionality due to the sensitive nature of DHS's systems. Relevant criteria is provided in individual limited distribution (For Official Use Only) Notices of Findings and Recommendations (NFRs) and separate IT management letters (ITMLs) to DHS and Component management.

Recommendations: We recommend that the DHS Office of the Chief Financial Officer (OCFO), in coordination with the Office of the Chief Information Officer (OCIO) and Component management, make the necessary improvements to the Department's financial management systems and supporting IT security controls as they continue their financial systems modernization initiative. Specific, more detailed recommendations were provided in individual limited distribution NFRs and separate ITMLs to DHS and Component management.

I-B Financial Reporting

Background: Financial reporting relates to the preparation of financial information to be included in the financial statements and related disclosures and includes the activities for initiation, authorization, recording, and processing transactions in the general ledger. It includes procedures used to enter transaction totals into the general ledger, procedures related to the selection and application of accounting policies, and management's oversight of the process. The Department continued to implement corrective action plans and made progress in certain areas, such as designing and implementing review and reconciliation controls at Immigration and Customs Enforcement (ICE) and the Components serviced by ICE for which deficiencies noted in the prior year contributed to the prior year material weakness in financial reporting. However, financial reporting continued to be a challenge for the Department as previously identified deficiencies persisted and new deficiencies were identified.

Conditions: We noted the following internal control deficiencies that, collectively, were deemed a material weakness in internal control over financial reporting.

DHS:

- Lacked sufficient manual controls in process areas to fully mitigate the risks caused by GITC deficiencies.
- Did not maintain effective internal control related to service organizations, including evaluating and documenting the roles of service and sub-service organizations, performing effective reviews of service organization control (SOC) reports, considering and/or implementing complimentary end user controls identified in SOC reports, and assessing and addressing service provider risk in the absence of SOC reports.
- Lacked fully effective controls to ensure the accuracy of reporting budgetary account balances. Specifically, controls were not fully effective to ensure:
  - Timely and accurate recording of obligations and liquidations;
  - Proper classification of unobligated balances as apportioned or unapportioned; and

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Exhibit I – Material Weaknesses

- Maintenance and availability of sufficient documentation to support budgetary activities, such as obligations, de-obligations, modifications, and recoveries of prior year obligations.

United States Coast Guard (USCG or Coast Guard):

- Lacked fully implemented processes and control procedures to perform timely, sufficient analyses to evaluate the interrelationship between certain account balances (e.g., operating expenses, construction in progress, and operating materials and supplies) of current year and residual clean-up activity to compensate for the inability to rely on transactional data due to system limitations.
- Lacked fully implemented controls related to sufficient review of activity, including adjusting entries, to prevent and/or timely detect and correct financial reporting errors related to property, plant, and equipment (PP&E) balances to ensure activity aligned with actual current year business events.
- Lacked effective controls to ensure accuracy of certain beginning balance and year-end close-out activities in its three general ledgers.
- Was not able to identify and reconcile intra-governmental activities and balances or ensure that transactions were coded to the correct trading partner. Additionally, internal controls associated with the periodic confirmation and reconciliation of intra-governmental activity were not properly designed or fully implemented to ensure identified differences were resolved timely.
- Did not perform a sufficient management review of reported valuations of actuarial pension and healthcare liabilities to support accuracy and continued appropriateness of underlying data and assumptions utilized by the actuary in estimating the liabilities.

Federal Emergency Management Agency (FEMA):

- Did not effectively monitor the National Flood Insurance Program's (NFIP) Write Your Own (WYO) insurance companies' processing of case loss reserves to ensure claim adjustments and closures were recorded timely and accurately.
- Did not effectively monitor the NFIP's WYO insurance companies' processing of claim payments to prevent improperly authorized payments and disbursements exceeding applicable coverage limitations.
- Lacked effective controls to ensure that results of reviews and bi-annual audits performed at NFIP's WYO insurance companies were considered in the calculation of its actuarial insurance liability.

Customs and Border Protection (CBP):

- Did not design and implement sufficient controls surrounding year-end reporting and the identification of subsequent events, such as changes to taxes, duties, and trade receivables and the proper classification of disbursements as capital expenditures instead of operating expenses.
- Did not have effective controls related to the preparation and review of manual journal entries, including underlying information.
- Did not have effective controls over the input and review of seized and forfeited information at the port level. In addition, controls over the presentation of disclosures related to seized and forfeited items were not designed at a level of precision to detect material misstatements.

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Exhibit I – Material Weaknesses

United States Secret Service (USSS):

- Did not fully assess risk, design and implement sufficient controls, and document processes over its actuarial pension liability.
- Did not design and implement sufficient policies and controls to appropriately track, monitor, and report the complete population of its not in evidence counterfeit note inventory.

Further, the deficiencies we identified at the National Protection and Programs Directorate (NPPD) related to PP&E are financial reporting in nature and also contributed to this financial reporting material weakness. See deficiencies cited at Comment **I-C**, *Property, Plant, and Equipment.*

Cause/Effect: The Department lacks robust continuous monitoring and testing of IT general controls necessary to identify weaknesses, assess the resulting risks created by IT deficiencies, and respond to those risks through compensating controls. The lack of compensating controls results in the Department's noncompliance with the requirements of FFMIA and OMB Circular No. A-123, Appendix D, *Compliance with Federal Financial Management Improvement Act of 1996* as reported in Comment **III-J**, *Federal Financial Management Improvement Act of 1996* (FFMIA). Personnel tasked with evaluating the roles of service organizations and the controls at service organizations as well as complimentary controls within the Components relying on those service organizations often do not possess the required understanding of internal control or the related business process to perform an effective assessment. DHS's decentralized structure enables obligations to be recorded across a multitude of locations by various authorized personnel and contributes to the challenge of enforcing existing policies, procedures, and internal controls surrounding budgetary accounting. Deficient controls in budgetary accounting increase the risk that the Department may misstate budgetary balances, and may lead to unintentional violations of the *Antideficiency Act.*

In FY 2016, the Coast Guard progressed in the development and implementation of routine evaluations of the transaction activity flowing through current year operating expenses based on residual property clean-up activity and other transaction activity that flows through this account as a result of system limitations. However, the Coast Guard did not fully design, implement, and consistently demonstrate the effectiveness of controls by year-end. Coast Guard's financial reporting organizational structure lacks a sufficient number of skilled resources with adequate overall entity and financial acumen to provide appropriate financial reporting oversight necessary to monitor the Coast Guard's multifaceted, complex, and decentralized financial operations. Coast Guard continued to have difficulties in providing complete and accurate data populations that sufficiently distinguished, at the transaction level, current year activity from residual clean-up activity as well as activity flowing through various general ledgers; thus, inhibiting management from performing adequate reviews of activity for reasonableness and alignment with current year business events. Additionally, related to actuarial liabilities, management improved documentation to evidence greater understanding of the Coast Guard actuarial pension and healthcare valuation processes, including assumptions and sources of data used in the valuations. However, management did not completely develop sufficient management review processes by year-end, inhibiting their ability to fully assess risk from a financial reporting perspective resulting in continued over reliance on actuarial specialists. Furthermore, the Coast Guard's three legacy general ledger systems, developed over a decade ago, have severe functional limitations, contributing to the Coast Guard's inability to address pervasive internal control weaknesses in financial reporting, strengthen the control environment, and comply with relevant Federal financial system requirements and guidelines, see Comment **III-J**, *Federal Financial Management Improvement Act of 1996* (FFMIA). Also refer to information technology (IT) system functionality issues described at Comment **I-A**, *Information Technology Controls and Financial System Functionality.* Coast Guard relies on significant manual interventions, which are more prone to error and are designed to detect rather than prevent errors, to attempt to compensate for these limitations. Despite these control deficiencies, Coast Guard was able to adequately support its FY 2016 account balances.

FEMA is not effectively monitoring the controls in place at the WYO insurance companies or the service provider responsible for preparing NFIP financial statements. The NFIP Standards Committee, responsible for monitoring and analyzing performance of WYO insurance companies and its service provider, did not meet in FY 2016. Additionally, FEMA has not established protocol for communicating findings identified through reviews and audits performed at the WYO insurance companies and service provider to the Chief

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Exhibit I – Material Weaknesses

Actuary. The results of these reviews are relevant for assessing completeness and accuracy of critical data elements relied upon in the calculation of FEMA's insurance liability.

In some cases, CBP did not properly identify the controls needed to mitigate the risks related to the financial reporting process; in other instances, CBP personnel did not follow the existing policies or procedures. CBP did not perform a sufficient risk assessment to determine the areas that may require adjustments at year-end due to CBP activities or existing policies. In addition, as a complex entity with a high volume and dollar amount of transactions, CBP lacks a sufficient number of skilled accounting personnel to oversee and monitor the financial reporting processes. Deficiencies in financial reporting resulted in significant adjustments to the current period financial statements and disclosures. Despite these control deficiencies, CBP was able to adequately support its FY 2016 account balances.

USSS management did not possess a sufficient understanding of the USSS actuarial pension valuation process to fully assess the appropriateness of the assumptions due to over reliance on an external actuary. USSS also did not properly assess the risks related to the processes or implement controls over not in evidence counterfeit inventory. Additionally, USSS lacks sufficient communication between the field offices, forensic services, and financial management divisions. These deficiencies resulted in the identification and correction of an understatement of not in evidence counterfeit inventory.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria,* after Exhibit III.

Recommendations: We recommend that:

DHS:

1. Develop continuous monitoring and testing of IT general controls to identify weaknesses, assess the resulting risks created by any identified IT deficiencies, and respond to those risks through implementing compensating controls.
2. Appropriately align knowledgeable resources to evaluate the roles of service organizations, assess controls at those service organizations, and identify and assess complimentary controls within the Components relying on those service organizations.
3. Reinforce existing policies and procedures related to processing obligation transactions; periodic review and validation of open obligations; timely recording of budgetary transactions; obtaining proper approvals; and retaining supporting documentation.

Coast Guard:

4. Establish new, or improve existing, policies, procedures, and related internal controls to ensure that:
    a. Transactions flowing between various general ledger systems, whether the result of balance clean-up activities or system limitation manual workarounds, are sufficiently tracked and analyzed to ensure complete and accurate reporting of operational activity and related general ledger account balances.
    b. All non-standard adjustments (i.e., journal entries and top side adjustments) impacting the general ledger are adequately researched, supported, and reviewed prior to their recording in the general ledger.
    c. The year-end close-out process, reconciliations, and financial data and account analysis procedures are supported by documentation, including evidence of effective management review and approval; and beginning balances in the following year are determined to be reliable and supported.
    d. All intra-governmental activities and balances are reconciled, accurately reflected in the financial statements, and differences are resolved in a timely manner.
    e. Management possesses adequate understanding, maintains documentation, exercises oversight of chosen assumptions, and routinely evaluates the completeness and accuracy of underlying data and the continued appropriateness of assumptions used in significant estimates.

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5. Increase training and development of existing resources to better align them to financial reporting oversight roles.

FEMA:

6. Reinstitute regularly scheduled quarterly meetings with the NFIP Standards Committee to ensure there is sufficient oversight of operations at the WYO insurance companies and its service provider.
7. Develop and implement policies and procedures that ensure results of reviews and audits performed over WYO insurance companies are communicated to the actuary for consideration in the calculation of the insurance liability.

CBP:

8. Establish new, or improve existing policies, procedures, and internal controls to ensure subsequent events with potential financial reporting implications are identified (e.g. through development of a "look-back" analysis, evaluation of specific items, and/or comparison of available data sets).
9. Enforce existing policies, procedures, and related internal controls to ensure that the review of manual journal entries is sufficiently precise to identify errors, and that the underlying information utilized in the preparation of the entries is complete and accurate.
10. Enforce existing policies, procedures, and controls at the port level to ensure information recorded in the system of record for seized and forfeited items is complete and accurate. In addition, improve existing controls surrounding the review of financial disclosures related to seized and forfeited narcotics to ensure proper reporting.
11. Attract and deploy additional skilled resources and align them to financial reporting oversight roles.

USSS:

12. Establish new, or improve existing, policies, procedures, and related internal controls to ensure the adequate understanding and oversight of assumptions used in significant estimates is maintained by USSS management and continued appropriateness of those assumptions are routinely evaluated.
13. Employ additional resources and design and implement policies and controls to track, monitor, and report the complete population of its not in evidence counterfeit note inventory, including any note processing backlog.

I-C Property, Plant, and Equipment

Background: DHS PP&E is primarily concentrated in a few Components. The Coast Guard maintained approximately 50 percent of DHS's general PP&E.

In FY 2016, the Coast Guard continued to design and implement robust control processes with a focus on sustainment activities and current year transactions while completing residual clean-up efforts of prior year property balance valuation identified through newly developed control processes. This represents a significant step forward in the maturation of the Coast Guard's internal control environment. However, weaknesses continue to exist in the internal control over PP&E at the Coast Guard.

NPPD has several programs related to providing cyber security services to other Federal agencies. These programs, which have received significant appropriations in recent years, are expected to grow in future years and will require significant investment in hardware and software. Control deficiencies noted below relate to the identification and recording of PP&E for these programs, however, root causes are financial reporting in nature and thus, also contribute to the material weakness in financial reporting cited at Comment **I-B**, *Financial Reporting*.

USSS property primarily consists of equipment used to protect national leaders, visiting heads of state and government, designated sites, and national special security events. USSS property also consists of buildings and leasehold improvements related to field offices and its headquarters.

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Exhibit I – Material Weaknesses

Conditions: We noted the following internal control deficiencies that were, collectively, deemed a material weaknesses in internal control over financial reporting related to PP&E:

Coast Guard did not:

- Design and implement sufficient controls over monitoring of construction in progress (CIP) activity across its multiple general ledgers and allocation of CIP project costs, at an asset level, on an on-going basis.
- Implement controls effectively over the annual CIP accrual to ensure complete and accurate recording of general ledger balances related to in-service assets not yet interfaced.
- Review current year expenditures related to CIP projects timely in order to properly classify costs as capital or expense.
- Transfer completed assets from CIP to in-service assets in a timely manner.
- Implement controls effectively over the recording of adjustments timely to ensure the activity was properly reflected in the general ledger.
- Reconcile costs and underlying support effectively for asset activity to ensure asset additions, deletions, or other adjustments are recorded timely and accurately in all PP&E accounts.
- Document policies and control procedures to identify capitalized assets that were not currently in service and awaiting decision for removal action.
- Adhere to established inventory policies and procedures, such as those regarding asset identification, system mapping, and asset tagging processes, to clearly differentiate and track personal property assets in the fixed assets system. Additionally, control procedures over USCG's real property inventory process were not fully designed and implemented to ensure the completeness, existence, and accuracy of real property assets.

NPPD did not:

- Implement policies and procedures to identify contracts at the initial obligation level that are capitalizable in nature to ensure the appropriate accounting treatment is applied.
- Design and implement sufficient controls to appropriately track asset activity at a transaction level, and ensure the timely recording of asset additions, deletions, or other adjustments in all general PP&E accounts.
- Sufficiently control, monitor, and track adjustments, recorded in lieu of recording individual transactions, to ensure timely, complete and accurate recording of the PP&E balances.

USSS did not:

- Design and implement controls and processes to reconcile its PP&E detailed sub-ledger to the general ledger.
- Implement established inventory policies and control procedures to ensure the completeness, existence, and accuracy of real and personal property assets.
- Design and implement sufficient controls to appropriately track asset activity at a transaction level, and ensure the timely recording of asset additions, deletions, or other adjustments for PP&E.
- Design and implement controls and processes to identify instances of and criteria for asset impairment.

Cause/Effect: In FY 2016 USCG engaged in residual clean-up efforts related to PP&E balances, which were the result of Coast Guard's initial development and implementation of overall sustainment controls related to general PP&E balances. As Coast Guard continued to focus on implementation and operating effectiveness of existing control processes, controls over timely recording of asset activity, including timely posting of activity associated with adjustments, persisted as a weakness in the control environment. Further,

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Exhibit I – Material Weaknesses

specifically related to CIP, Coast Guard continued to have difficulties providing complete and accurate data populations that represent current year activity, based on business operations, and appropriately reconcile to reciprocal populations (e.g., operating expenses and other general PP&E accounts). Development of sufficient processes to monitor and record CIP activity was constrained by the design of Coast Guard's large construction contracts. Contracts related to the construction of USCG's various property fleets are not structured in such a way that costs can be sufficiently tracked to ensure proper application of capital expenditures to individual constructed assets. System limitations, including the highly interrelated yet decentralized nature of systems and system components, as well as insufficient system attributes at a transaction level, further complicate the PP&E CIP process and contribute to the noted deficiencies. Significant manual workarounds are necessary to compensate for system limitations, but are not fully documented or designed and implemented to effectively address risks resulting from the system limitations. Additionally, Coast Guard's overall property management division lacks a sufficient number of skilled resources to continue development and implementation of robust sustainment focused internal controls and provide appropriate financial reporting oversight necessary to monitor the Coast Guard's decentralized property operations.

NPPD management did not sufficiently assess the risk related to the identification of programs that may contain items that are capitalizable in nature. Specifically, contracts related to internal use software (IUS) are not structured in such a way that costs can be sufficiently tracked to ensure the proper classification of expenditures and that costs incurred can be traced at an asset level. Additionally, NPPD lacks a sufficient number of skilled resources to develop, document, and implement robust internal control procedures.

USSS did not properly assess the risks and implement controls related to the capital property processes, including proper integration between the sub-ledger and general ledger. USSS did not have the appropriate resources to monitor and oversee the reporting and recording of capital property. Additionally, the Administrative Operations Division and Financial Management Division did not communicate sufficiently to ensure proper accountability. As a result, USSS experienced significant difficulties in providing complete and accurate data populations to support operating controls and year-end PP&E balances.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria,* after Exhibit III.

Recommendations: We recommend that:

Coast Guard:

1. Design and implement controls to appropriately track asset activity at the transaction level and ensure the timely recording of asset additions, deletions, or other adjustments.
2. Develop processes and monitoring mechanisms to track CIP projects at an asset level, continue to implement controls over the transfer of completed CIP to in-use assets, and increase monitoring of CIP activity to ensure accurate recording in the general ledger.
3. Involve financial management personnel in the procurement of contracts for Coast Guard's major construction projects to ensure that they are structured to facilitate isolation of costs between development and maintenance (i.e., capitalizable vs. expensed), at an individual asset level, in order to enhance traceability of CIP costs.
4. Adhere to established inventory policies and procedures.
5. Establish new, or improve existing, policies, procedures, and related internal controls to sufficiently review personal and real property activity and balances in order to verify costs are appropriate and reflect USCG's business operations during the fiscal year.
6. Attract and deploy additional skilled resources to support the control environment and provide the necessary financial reporting oversight.

NPPD:

7. Involve financial management personnel in the procurement of contracts for NPPD's major IUS projects to ensure they are structured to facilitate isolation of costs between development,

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Exhibit I – Material Weaknesses

maintenance, and research and development (i.e., capitalizable vs. expensed), at an individual asset level, in order to enhance traceability of capital costs.

8. Design and implement controls to appropriately track asset activity at the transaction level and ensure the timely recording of asset additions, deletions, or other adjustments.
9. Attract and deploy additional skilled resources to support the control environment and provide the necessary financial reporting oversight.

USSS:

10. Design and implement controls and procedures to perform reconciliations between the PP&E sub-ledger to the general ledger and reconcile all significant differences.
11. Adhere to established inventory policies and procedures and design and implement controls to appropriately track asset activity at the transaction level and ensure the timely recording of asset additions, deletions, or other adjustments.
12. Establish new, or improve current communication channels within the Administrative Operations Division and Financial Management Division to ensure sufficient review of personal and real property activity and balances, including equipment, IUS, land, buildings and other structures, and to verify costs are appropriate and reflect USSS's business operations during the fiscal year.
13. Design and implement controls and processes to identify instances and criteria for asset impairment.
14. Attract and deploy additional skilled resources within the Administrative Operations Division and Financial Management Division to support the control environment and provide the necessary financial reporting oversight.

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Exhibit II – Significant Deficiencies

II-D Entity-Level Controls

Background: Entity-level controls are controls that have an overarching or pervasive effect on an entity. They include the entity's culture, values, and ethics as well as the attitudes, awareness, and actions of management and those charged with governance concerning the entity's internal control and its importance. Entity-level controls reside in all five components of internal control – control environment, risk assessment, control activities, monitoring, and information and communications – as defined by the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States. These controls must be effectively designed, implemented, and operating together in an integrated manner to create and sustain an organizational structure that is conducive to reliable financial reporting.

The conditions below should be read in conjunction with Comment **I-A**, *IT Controls and Financial System Functionality*; Comment **I-B**, *Financial Reporting*; Comment **I-C**, *Property, Plant, and Equipment*; Comment **II-E**, *Grants Management*; and Comment **II-F**, *Custodial Revenue and Refunds and Drawbacks.*

Conditions, Cause/Effect, and Recommendations: During our audit we noted certain control deficiencies for which underlying causes were similar and pervasive throughout the Department. The resulting recommendations, which we provided to correct the deficiencies, are based on improvements needed in management's risk assessment process, communication practices throughout the Department, and its monitoring activities. Accordingly, we deemed the entity-level control deficiencies described below to, collectively, merit the attention of those charged with governance.

Risk Assessments: The Department has not matured its risk assessment processes. As a result, events and transactions that have a greater likelihood of error are not always receiving an appropriate level of attention. Risk assessments should be improved at both the headquarters level by OCFO, and individual Components annually, and updated during the year as needed. Examples of areas that should be addressed annually and updated periodically in the risk assessment are:

- Needs for technical and resource support to remediate severe control deficiencies and continually evaluate for areas where material financial statement errors could occur and not be identified and corrected timely.
- Training needs assessments for personnel to match skills with roles and responsibilities and identify gaps that could lead to financial statement errors.
- Coordination between headquarters and smaller Components that do not have the resources to fully support a separate financial management infrastructure and the Department to identify financial accounting and reporting risks and remediate control deficiencies.
- Identification of financial accounts and transactions that are susceptible to error due to weaknesses in IT general controls and IT systems functionality (e.g., limitations in budgetary subsidiary IT systems). Refer to Comment **I-A**, *Information Technology Controls and Financial System Functionality*.

Information and Communications: Communications within Components, between headquarters and Components, and between financial and IT management, should be improved to ensure:

- Roles and responsibilities of program and field personnel that provide key financial information are defined and that those personnel understand and comply with policies.
- Management has a sufficient understanding of the implication of IT vulnerabilities and limitations, and manual compensating internal controls are designed and implemented to mitigate risk.
- Monitoring across larger Components with decentralized operations to ensure responsibilities have been properly assigned and clearly communicated, and that internal control over financial reporting and compliance with direct and material laws and regulations have been properly designed and implemented and are operating effectively across the organization.

Monitoring Controls: The Department should design continuous monitoring controls to ensure transactions with a higher risk of error are adequately examined. Components with ineffective, detective monitoring controls should look for opportunities to implement more reliable controls earlier in the process to prevent

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errors at the transaction source. In addition, detective controls intended to compensate or mitigate weak preventive or process-level controls (e.g., management review controls of the financial statements) are not always designed at a level of precision to identify a significant error. Consequently, errors, or a combination of errors, in the financial statements could go undetected.

The Department continued progress in its identification and remediation of control deficiencies through executive level support for strong internal controls. Enhancement of internal testing of both financial and IT controls and progress in resolving weaknesses identified will be critical to sustaining auditable financial statements in the future. These conditions were further evidenced through control deficiencies cited at Comment **I-B**, *Financial Reporting*.

II-E Grants Management

Background: FEMA is the primary grantor within DHS, managing multiple Federal disaster and non-disaster grant programs.

Conditions: The majority of the following internal control deficiencies related to grants management were reported in the prior year and persisted in FY 2016. We deemed these deficiencies to, collectively, merit the attention of those charged with governance.

FEMA did not:

- Effectively communicate policies and procedures to the regional offices, where the majority of day-to-day management of its grantees occurs, such that internal controls have been properly designed and implemented, and are operating effectively surrounding the monitoring of grantees' compliance with laws and regulations.
- Compile a complete list of grantees requiring single audits in order to fully comply with the *Single Audit Act Amendments of 1996* (*Single Audit Act*) as implemented by Title 2 of the Code of Federal Regulations (CFR), Part 200 - *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Super Circular). Refer to Comment **III-H**, *Single Audit Act Amendments of 1996*.
- Issue Management Decision Letters timely for single audit reports available in the Federal Audit Clearinghouse.
- Maintain accurate and timely documentation related to reviews performed of grantees' single audit reports.
- Reconcile grantee quarterly financial reports to FEMA's systems consistently and effectively.
- Implement a consistent, effective process to ensure timely closeout of FEMA's grants.

Cause/Effect: FEMA did not fully implement policies and procedures over its grant program in order to ensure compliance with the *Single Audit Act*, as implemented by the Super Circular. In addition, FEMA did not have a grants IT system in place to efficiently and comprehensively track grants to help ensure that all programmatic events were accurately and timely completed and properly recorded to the general ledger. Manual processes, which were not always effective, were used to reconcile open grants within grants systems to FEMA's general ledger system, and to track grants eligible for close-out. Refer to Comment **I-A**, *Information Technology Controls and Financial System Functionality*. FEMA did not implement effective monitoring procedures over its grant activities. Although responsibilities surrounding grants management have been assigned to discrete units within the organization, there is no overall central oversight to ensure the delegated responsibilities are being effectively carried out for all grants. Thus, FEMA cannot ensure there is effective management and administration of the grants process, as well as compliance with provisions of the *Single Audit Act*. Specifically, the lack of standardized internal controls within FEMA caused difficulty in assembling a comprehensive status of the cash on hand at grantees and the status of grants eligible for close-out, which creates risk of excessive cash on hand at grantees and untimely closure of grants.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria,* after Exhibit III.

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Exhibit II – Significant Deficiencies

Recommendations: We recommend that FEMA:

1. Assign the responsibility for central oversight of grants management to one program office within FEMA.
2. Complete the implementation of policies and procedures to ensure full compliance with the *Single Audit Act* related to receipt and review of grantees' single audit reports.
3. Implement monitoring procedures over obtaining, reviewing timely, and reconciling required quarterly grantee reports.
4. Develop and implement procedures to create and track comprehensive lists of FEMA grants that are eligible for close-out.
5. Develop and implement procedures to reconcile grant award information maintained in grant IT systems to the general ledger.
6. Implement a continuous quality assurance and grants monitoring process to include review of corrective actions resulting from implementation of the above recommendations.

II-F Custodial Revenue and Refunds and Drawbacks

Background: The Department collected $40.3 billion in custodial revenue as presented in the statement of custodial activity. CBP is the primary collector of these revenues within the Department. The majority of CBP's collections are from merchandise entering the United States from foreign ports of origin which CBP assesses import duties, taxes, and fees against (identified below as the Entry Process). Receipts of import duties and related refunds are presented in the statement of custodial activity. To ensure the subsequent collection of these duties, taxes and fees CBP requires bonds from parties that import merchandise into the United States. The assessment of liquidated damages against a bond serves to promote compliance with laws and regulations.

Drawback claims are a remittance, in part or up to 99%, of duties, taxes, or fees previously paid by an importer. Drawback claims typically occur when imported goods on which duties, taxes, or fees have been previously paid are subsequently exported from the United States or destroyed prior to entering the commerce of the United States. The *Trade Facilitation and Trade Enforcement Act of 2015* (TFTEA) contained provisions for drawback modernization that simplify the rules for determining if exports are eligible for refunds, expand the timeframe for drawback claims, and eliminate some of the documentation requirements.

In 2014, the President issued an executive order that requires full implementation of the International Trade Data System by December 2016. In order to meet this requirement, CBP has been transitioning various trade functions, including quota and cargo release, from Automated Commercial System (ACS), which is the current IT system for custodial collections to the Automated Commercial Environment (ACE) system. The remaining functions, including recording of collections and payment of drawback claims, are scheduled for migration to ACE in fiscal year 2017.

Many of the conditions cited below have existed for several years. Management has stated that the timeframe for remediation of these conditions is dependent on successful implementation of IT system upgrades and the TFTEA legislation changes.

Conditions: We identified the following internal control deficiencies related to custodial activities at CBP that we deemed to, collectively, merit the attention of those charged with governance:

Related to the Entry Process:

- Management did not fully implement and communicate policies and procedures that identified risk points and key controls for the entry functions that were transitioned to ACE and updates that were required due to changes in governing statutes during fiscal year 2016.
- Existing policies and procedures (1) were not consistently followed for review and verification of duties of entry edit and exception reports; (2) did not clearly establish consistent procedures for completing and documenting the review of the entry edit and exception and Budget Clearing

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Independent Auditors' Report
Exhibit II – Significant Deficiencies

Account (BCA) reports; and (3) lacked a requirement for locations to implement controls to ensure the completeness and accuracy of alternative reports used when locations elected to modify the standard system-generated reports.

- In addition to deficiencies in the design and implementation of controls over the BCA report, we also identified specific instances of untimely removal from the BCA collections related to fines, penalties, and forfeitures and liabilities for deposit accounts.
- Controls over the review of Single Transaction Bonds (STBs) were not operating effectively. The system for processing STBs was operational for the entire fiscal year, however, it was not designed to replace the requirements for a manual review. Additionally, CBP was unable to provide documentation to support the manual review of bonds processed through the system.

Related to Refunds and Drawbacks:

- The current entry/collections system lacked automated controls necessary to prevent, or detect and correct, excessive drawback claims. The programming logic did not link drawback claims to imports at a sufficiently detailed level. In addition, the system did not have the capability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries and export documentation upon which the drawback claim was based. Further, the system had not been configured to restrict drawback claims to 99 percent of each entry summary in accordance with regulation.
- Manual drawback review policies did not require drawback specialists to sufficiently review prior drawback claims against a selected import entry to determine whether, in the aggregate, an excessive amount was claimed against import entries.
- Documentation retention periods were not appropriate to (1) ensure that support for drawback transactions was maintained for the full claim window, and (2) ensure support for importers qualifying for accelerated filer status was maintained.
- The automated control designed to prevent a claimant from exceeding the continuous bond amount on file did not operate effectively.
- Existing policies and procedures were not consistently followed for review and verification of the check proof listing report.

Cause/Effect: Policies and procedures over the review of entry edit, cancellation and exception and budget clearing account reports were not sufficiently specific to ensure controls were performed consistently at all locations during fiscal year 2016. In addition, existing policies and procedures do not require timely coordination with all applicable parties. Failure to consistently adhere to existing policies and procedures for review and verification of reports may result in a potential misstatement to the balance of taxes, duties, and trade receivables, net and total cash collections on the statement of custodial activities. Inadequate controls could result in the failure of CBP to identify amounts that are due to the Treasury General Fund.

CBP did not consistently adhere to policies and procedures for the review of STBs and CBP management did not develop and communicate policies and procedures to uniformly perform and document the manual review of STBs housed in the eBonds module of ACE. Failure to consistently adhere to existing policies and procedures for the review of STBs could lead to loss of revenue due to uncollected duties, taxes, and fees.

The mandated timeframe for the transition from ACS to ACE and resource constraints prevented full development of policies and procedures before the implementation of operational changes. Failure to fully establish and define control environments could lead to potential misstatements to the balance of taxes, duties, and trade receivables, net and total cash collections on the statement of custodial activities.

IT system functionality and outdated IT systems contribute to the weaknesses identified above. Refer to Comment **I-A**, *Information Technology Controls and Financial System Functionality*. ACS does not provide the necessary functionality to prevent the overpayment of drawback claims. CBP plans to replace ACS with ACE in fiscal year 2017. However, until such implementation occurs, CBP does not currently have sufficient resources to effectively perform compensating manual controls over drawback claims.

II.4

Independent Auditors' Report
Exhibit II – Significant Deficiencies

TFTEA simplifies the statutes that govern the drawback process further reducing the need for manual controls. However, it does not take effect until February 2018. The length of the drawback claim lifecycle often extends beyond the documentation retention period, which is set by statute. Until effective automated and manual controls are implemented over the drawback process, CBP may be subject to financial loss due to excessive drawback claims. In addition, drawback claims are governed by the laws and regulations in effect at the time of filing. As the length of the drawback lifecycle can last several years, it will take several years for claims existing prior to the implementation of TFTEA to be completed.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria,* after Exhibit III.

Recommendations: We recommend that CBP:

Related to the Entry Process:

1. Update and redistribute guidance to necessary personnel regarding the appropriate CBP directives to ensure consistent performance of controls across all locations.
2. Fully implement the automated controls over single transaction bond processing.
3. Develop policies and procedures that clearly identify risks, as well as controls to mitigate those risks for all trade functions transitioning to ACE.
4. Provide training to all personnel on new policies to ensure consistent implementation at decentralized locations.

Related to Refunds and Drawbacks:

5. Continue with the scheduled implementation of drawback in ACE.
6. Continue to enhance the manual controls to detect or prevent excessive drawback claims, including after the implementation of TFTEA, as current claims will take several years to be processed through the drawback lifecycle.
7. Implement relevant provisions of TFTEA, which will take effect on February 24, 2018.
8. Implement policies and procedures to ensure supporting documentation related to accelerated filer status is maintained.
9. Update and redistribute guidance to necessary personnel regarding the appropriate CBP directives to ensure consistent performance of controls across all locations.

Independent Auditors' Report
Exhibit III – Compliance and Other Matters

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

FMFIA requires agencies to establish effective internal control and financial systems and to continuously evaluate and assess the effectiveness of their internal control. DHS's implementation of OMB Circular No. A-123 facilitates compliance with the FMFIA. DHS has implemented a multi-year plan to achieve full assurance on internal control. However, the DHS *Secretary's Assurance Statement* dated November 14, 2016, as presented in *Management's Discussion and Analysis* of the Department's FY 2016 *Agency Financial Report* (AFR), acknowledged the existence of material weaknesses, and therefore provided qualified assurance that internal control over financial reporting was operating effectively as of September 30, 2016. Management's findings were similar to the control deficiencies we have described in Exhibits I and II. However, continuous monitoring and testing of both financial and IT controls was not performed over all significant areas.

While we noted the Department progressed toward full compliance with FMFIA and OMB Circular No. A-123, the Department did not fully establish effective systems, processes, policies, and testing procedures to ensure that internal controls are operating effectively throughout the Department.

Recommendations: We recommend that the Department continue its corrective actions to address internal control deficiencies in order to ensure full compliance with FMFIA and its OMB Circular No. A-123 approved plan in FY 2017. We also recommend that the Department conduct complete risk assessments to identify significant risk areas and continuously monitor and test the financial and IT controls within those areas.

III-H *Single Audit Act Amendments of 1996* (Single Audit)

FEMA is the primary grantor in DHS, managing multiple Federal disaster and non-disaster grant programs. The *Single Audit Act Amendments of 1996*, as implemented by Title 2 of the Code of Federal Regulations (CFR), Part 200 - *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Super Circular), requires agencies awarding grants to monitor their grantees; ensure they receive grantee reports timely; and follow-up on single audit findings to ensure that grantees take appropriate and timely action. Although FEMA monitors grantees and their single audit findings, FEMA did not fully comply with provisions in the Super Circular in FY 2016. We noted that FEMA's monitoring efforts were inconsistent, and FEMA did not obtain and review all grantee single audit reports in a timely manner. Further, the decentralization of grants management prevents FEMA from being effectively able to monitor its grantees' compliance with applicable laws and regulations.

Recommendation: We recommend that FEMA implement the recommendations in Comment **II-E**, *Grants Management*.

III-I *Antideficiency Act* (ADA)

Various management reviews and OIG investigations are ongoing within the Department, which have or may identify ADA violations, as follows:

- The independent investigation, at the Office of Intelligence and Analysis, related to the obligation of funds in excess of its continuing resolution apportionment in FY 2012 has been completed. The package to notify the President, Congress, and GAO of the violation is pending the Secretary's signature.
- In FY 2016, ICE finalized its investigation of payments exceeding statutory authority for continuing to provide medical care for detainees released from custody. The package to notify the President, Congress, and GAO of the violation is pending OMB review.
- In FY 2015, the Management Directorate completed the investigation of an overobligation of funds that occurred in FY 2013. The package to notify the President, Congress, and GAO of the violation has been signed and is in clearance at OMB for transmission.
- CBP is investigating two potential ADA violations. One potential violation is related to overtime in excess of the annual cap established in the FY 2014 and FY 2015 Appropriations Acts. The other potential violation is related to a contract awarded in base year 2015 with a one-year option in 2016 without the appropriate Congressional notification as required by statute.

III.1

Independent Auditors' Report
Exhibit III – Compliance and Other Matters

- DHS is investigating potential ADA violations related to contracts awarded from FY 2013 to FY 2016 without the appropriate Congressional notification.
- USSS is investigating a potential incident related to the acceptance of voluntary services in violation of the ADA in FY 2014.
- ICE is investigating a potential ADA violation related to FY 2016 expenditures made for improvements to the ICE Director's office in excess of $5,000 without proper Congressional notification.
- The Transportation Security Administration is investigating a potential ADA violation related to potentially awarding Other Transaction Agreements from 2010 through 2015 without the appropriate Congressional notification.

Recommendation: We recommend that the Department complete the internal reviews currently planned or being performed, and properly report the results in accordance with the ADA, where necessary.

III-J *Federal Financial Management Improvement Act of 1996* (FFMIA)

FFMIA Section 803(a) requires that agency Federal financial management systems comply with: (1) applicable Federal accounting standards; (2) Federal financial management system requirements; and (3) the United States Government Standard General Ledger (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 the Department has progressed toward compliance with FFMIA and remediated some of the conditions identified in the prior year. However, multiple Components did not fully comply with at least one of the requirements of FFMIA based on criteria set forth in OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*. The reasons for noncompliance are reported in Exhibits I and II. The DHS Secretary stated in the *Secretary's Assurance Statement,* dated November 14, 2016, that the Department's financial management systems do not substantially conform to government-wide requirements mandated by FFMIA. The Department's remedial actions and related timeframes are also presented in the FY 2016 AFR.

An element within FFMIA, Federal system requirements, is ensuring security over financial management information. This element is addressed further in the *Federal Information Security Modernization Act of 2014* (FISMA). 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 collected or maintained and (ii) information systems used or operated; (2) complying with the requirements of the Act and related policies, procedures, standards, and guidelines, including (i) information security standards under the United States Code, Title 40, Section 11331, and (ii) information security standards and guidelines for national security systems; and (3) ensuring that information security management processes are integrated with agency strategic and operational planning processes.

We also noted weaknesses in financial systems security, reported by us in Comment **I-A**, *Information Technology Controls and Financial System Functionality*, which impact the Department's ability to fully comply with FISMA.

Recommendation: We recommend that DHS improve its financial management systems to ensure compliance with FFMIA, and implement the recommendations provided in Exhibits I and II.

III.2

Independent Auditors' Report
Index of Financial Reporting and Internal Control Criteria
(Listed Alphabetically by Criteria Source)

Criteria	Reference	Report Exhibit
Budget Clearing Account and Suspense Item Report	Point 7	II-G
CBP *2013 Drawback Handbook*, Issued (HB 3700-01B)	5.2 *Accelerated Payment*	II-G
CBP *Business Rules and Process Documents (Internal) Version 3.3*	7.2 *Single Transaction Bonds*	II-G
CBP *Collection and Deposits Handbook* (HB 5300-12B)	Section 1.4 Section 3.1	II-G
CBP Directive 3710-004B, *Refund of Miscellaneous Collections*	Section 2.2	II-G
CBP Directive 5610-004B, *Resolving Certain ACS Exception and Error Reports*	Section 5.4 Section 5.11	II-G
Code of Federal Regulations, Title 19	§111.23, §111.25, §113.13, §113.15, §113.26, §113.65, §163.4, §191.15, §191.38, §191.51, §191.92	II-G
Code of Federal Regulations, Title 31	§205.33	II-F
Component Requirements Guide for Financial Reporting in FY 2015, Version 3.0, April 2015	Section 3.1 Section 7.5 Section 8.16 Section 9.9 Section 9.10	I-B
	Section 9.9 Section 9.10	I-C
	Section 8.16	II-D
Department of Homeland Security Management Directive 125-02, *Interagency Agreements*	Section VI	II-D
Department of Homeland Security Management Directive 1104, *Fund Balance with Treasury*	Section VI	I-B
FASAB Technical Release 14: *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment*	Paragraph 10	I-B, I-C
Federal Acquisition Regulation (FAR)	§4.804	II-D

Criteria.1

Independent Auditors' Report
Index of Financial Reporting and Internal Control Criteria
(Listed Alphabetically by Criteria Source)

Criteria	Reference	Report Exhibit
Federal Financial Management Improvement Act of 1996	Section 803	I-B, I-C
Federal Managers' Financial Integrity Act of 1982	Section 2	I-B, II-D, II-G
Financial Resource Management Manual (FRMM COMDTINST M7100.3E), September 2013	Section 7.12 Section 7.13 Section 10.2 Section 10.3	I-B, I-C
GAO *Standards for Internal Control in the Federal Government*	Principle 4 Principle 7 Principle 10 Principle 12	I-B, II-D, II-F
GAO *FINANCIAL MANAGEMENT FFMIA Implementation Critical for Federal Accountability* (GAO-02-29)	Page 1, Paragraph 2	I-B
GAO *Principles of Federal Appropriations Law*, Second Edition, Volume II (GAO-OGC-92-13)	A. Introduction	II-D
Memorandum of Agreement Between the Department of Homeland Security, Federal Law Enforcement Training Centers and the Requesting Agency Regarding the Use of the Federal Law Enforcement Training Centers	Section VII	II-D
OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, July 2013	Section 31.5 Appendix B	IB, I-C
OMB Circular No. A-123, *Management's Responsibility for Internal Control*, Revised	1. Purpose	II-D, II-G
	3. Policy	I-B, II-D, II-F, II-G
	I. Introduction	I-B, I-C, II-D, II-F, II-G
	II. Standards	II-B, II-G
	IV. Assessing Internal Control	I-B, II-G
	Appendix D	I-B, I-C
OMB Circular No. A-127, *Financial Management Systems*, Revised	Section 8	I-B

Criteria.2

Independent Auditors' Report
Index of Financial Reporting and Internal Control Criteria
(Listed Alphabetically by Criteria Source)

Criteria	Reference	Report Exhibit
OMB Circular No. A-133, *Revised to show changes published in the Federal Registers of June 27, 2003 and June 26, 2007 Audits of States, Local Governments, and Non-Profit Organizations*	Subpart B Subpart D	II-F
OMB Circular No. A-136, *Financial Reporting Requirements*, Revised	Section V	I-B
OMB Memorandum M-04-11, *Service Organization Audits*	Paragraph 1	I-B
Single Audit Act Amendments of 1996	Section 7502	II-F
Statement of Federal Financial Accounting Standards 1: *Accounting for Selected Assets and Liabilities*	Paragraphs 39, 41, 45, 77	I-B
Statement of Federal Financial Accounting Standards 3: *Accounting for Inventory and Related Property*	Summary, Paragraph 1, 36, 37, 39	I-B, I-C
Statement of Federal Financial Accounting Standards 5: *Accounting for Liabilities of The Federal Government*	Paragraph 19	I-B
Statement of Federal Financial Accounting Standards 6: *Accounting for Property, Plant, and Equipment*	Paragraph 17, 18, 19, 26, 31, 34, 39	I-B
	Paragraph 17, 18, 19, 26, 31, 34, 39, 40	I-C
Statement of Federal Financial Accounting Standards 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*	Paragraph 79	II-D
Statement of Federal Financial Accounting Standards 10: *Accounting for Internal Use Software*	Paragraphs 16, 18, 20	I-B, I-C
Statement of Federal Financial Accounting Standards 29: *Heritage Assets and Stewardship Land*	Paragraph 25	I-C
Statement of Federal Financial Accounting Standards 33: *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*	Paragraph 33	I-B

Criteria.3

Independent Auditors' Report
Index of Financial Reporting and Internal Control Criteria
(Listed Alphabetically by Criteria Source)

Criteria	Reference	Report Exhibit
Statement of Federal Financial Accounting Standards 35: *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23*	SFFAS 6 - Paragraph 40 SFFAS 23 - Paragraph 16	I-B, I-C
Statement of Federal Financial Accounting Standards 39: *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*	Paragraph 11, 12	I-B
Transportation Security Administration, Internal Standard Operating Procedure, *Manual Processing of Non-CIMS Awards*	Section 5	II-D
Transportation Security Administration, Internal Standard Operating Procedure, *Processing Prior Year Adjustments (PYA) to Budgetary Resources*	Section 5	II-D
Transportation Security Administration, Internal Standard Operating Procedure, *UDO Verification and Validation*	Section 5	II-D
Treasury Financial Manual, Volume I	Part 2, Chapter 4700, Section 4706 Part 2, Chapter 4700, Appendix 10 Part 2, Chapter 5100, Appendix 2 Fund Balance With Treasury Reconciliation Procedures: A Supplement to TFM Volume I, Part 2, Chapter 5100, Section C	I-B
U.S. Department of Homeland Security Federal Emergency Management Agency Grant Programs Directorate Regional Coordination and Oversight Branch, *Cash Analysis Reporting SOP*	Section II, Part 3	II-F
United States Coast Guard Finance Center, Reports and Reconciliation Unit, *General IPAC Suspense Spreading Procedures*	Section 6.2	I-B
United States Coast Guard Finance Center, *Standard Operating Procedures Manual*	Chapter 12, Section A	I-B
United States Coast Guard *Environmental Liabilities Process Guide*	Section 2.3.3	I-B
United States Coast Guard, *Procedure for Physical Inventory and Year-End Certification of Personal Property*	Section 1.3 Section 5.5 Section 5.6 - 5.7	I-C

Criteria.4

Independent Auditors' Report
Index of Financial Reporting and Internal Control Criteria
(Listed Alphabetically by Criteria Source)

Criteria	Reference	Report Exhibit
United States Coast Guard, *Procedure for Physical Inventory of Real Property*	Section 3.2	I-C
United States Coast Guard, National Pollution Fund Center Instruction 16451.2: *Technical Operating Procedures for Resource Documentation under The Oil Pollution Act of 1990*	Chapter 2, Section B	I-B
United States Coast Guard, National Pollution Fund Center, *Allowance for Doubtful Accounts Annual Rate Calculation*	Step 8	I-B
United States Coast Guard, *Procedures for the Accounts Payable Accrual Estimate and Validation*	Section 8	I-B
US Code Title 31, Chapter 13	§1341	II-D, II-F
US Code Title 31, Chapter 15	§1501, §1554	I-B, II-D

Criteria.5

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

Homeland
Security

November 14, 2016

MEMORANDUM FOR: John Roth
Inspector General

FROM: Chip Fulghum
Deputy Under Secretary for Management and
Chief Financial Officer

SUBJECT: Fiscal Year 2016 Financial and Internal Controls Audit

Thank you for your audit report on the Department's financial statements and internal controls over financial reporting for fiscal years (FY) 2015 and 2016. We agree with the Independent Public Accountant's conclusions. While sustaining the notable success of our fourth unmodified audit opinion on all financial statements, the report indicates that DHS still has improvement opportunities. The Department has made great strides to mature our organization from both an audit remediation and internal control perspective. Our highest priority is supporting the critical mission of DHS with reliable financial information, and we have implemented robust, centralized oversight to ensure the integration of controls and standard business processes across the Department.

Despite the complexities of disparate financial systems and associated business processes, many of our large components, such as the United States Coast Guard have made substantial progress in overcoming system limitations to implement controlled processes and improve accounting for property, plant and equipment. For information technology controls, we have prioritized and are addressing the most significant internal control improvements across the DHS financial systems portfolio. These efforts are multi-year and tightly monitored, yielding results now with a clear path to future internal control maturity.

We are confident, with the continued commitment and investment of our DHS financial management community, that our steadfast progress will be affirmed in FY 2017 on our path to achieve an unmodified audit opinion on our internal control over financial reporting.

I look forward to working collaboratively with the Office of Inspector General and the Independent Public Accountant to further strengthen DHS financial management and internal control.

Appendix A

2

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Appendix B
Report Distribution

Department of Homeland Security

Secretary
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Chief of Staff
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Department of Homeland Security
Office of Inspector General, Mail Stop 0305
Attention: Hotline
245 Murray Drive, SW
Washington, DC 20528-0305

Other Information

The ***Other Information*** section contains information on Tax Burden/Tax Gap, Combined Schedule of Spending, Summary of Financial Statement Audit and Management Assurances, Improper Payments Elimination and Recovery Improvement Act, Freeze the Footprint, and Other Key Regulatory Requirements. Also included in this section are the OIG's Summary of Major Management and Performance Challenges Facing the Department of Homeland Security and Management's Response.

Unaudited, see accompanying Auditors' Report

Tax Burden/Tax Gap

Revenue Gap

The Entry Summary of Trade Compliance Measurement (TCM) program collects objective statistical data to determine the compliance level of commercial imports with U.S. trade laws, regulations and agreements, and is used to produce a dollar amount for Estimated Net Under-Collections, and a percent of Revenue Gap. The Revenue Gap is a calculated estimate that measures potential loss of revenue owing to noncompliance with trade laws, regulations, and trade agreements using a statistically valid sample of the revenue losses and overpayments detected during TCM entry summary reviews conducted throughout the year.

Entry Summary of Trade Compliance Measurement
($ in millions)

	FY 2016 (Preliminary)	**FY 2015 (Final)**
Estimated Revenue Gap	$ 396.5	$ 970.6
Preliminary Revenue Gap of all collectable revenue for year (%)	0.88%	2.07%
Estimated Over-Collection	$ 66.2	$ 48.4
Estimated Under-Collection	$ 462.7	$ 1,019.0
Overall Trade Compliance Rate (%)	99.2%	98.8%

The preliminary overall compliance rate for Fiscal Year (FY) 2016 is 99.2 percent. The final overall trade compliance rate and estimated revenue gap for FY 2016 will be issued in February 2017.

Combined Schedule of Spending

The Combined Schedule of Spending (SOS) presents an overview of how departments or agencies are spending money. The SOS presents combined budgetary resources and obligations incurred for the reporting entity. Obligations incurred reflect an agreement to either pay for goods and services, or provide financial assistance once agreed upon conditions are met. The data used to populate this schedule is the same underlying data used to populate the Statement of Budgetary Resources (SBR). Simplified terms are used to improve the public's understanding of the budgetary accounting terminology used in the SBR.

USASpending.gov reports obligations incurred for various financial assistance and contracts payment types. The major difference between information presented on the SBR and SOS versus USAspending.gov is that the SBR and SOS present all obligations incurred for the fiscal year; whereas USASpending.gov reports only a subset of those obligations related to various types of financial assistance and contracts. For example, the following types of obligations are presented in the SBR and SOS, but are not included in USASpending.gov: personnel compensation and benefits, agreements between Federal Government agencies (referred to as inter-agency agreements), and bankcard purchases below the micro-purchase threshold.

What Money is Available to Spend? This section presents resources that were available to spend as reported in the SBR.

- ***Total Resources*** refers to total budgetary resources as described in the SBR and represents amounts approved for spending by law.
- ***Amounts Not Agreed to be Spent*** represents amounts that the Department was allowed to spend but did not take action to spend by the end of the fiscal year.
- ***Amounts Not Available to Spend*** represents amounts that the Department was not approved to spend during the current fiscal year.
- ***Total Amounts Agreed to be Spent*** represents amounts that the Department has made arrangements to pay for goods or services through contracts, orders, grants, or other legally binding agreements of the Federal Government. This line total agrees to the Obligations Incurred line in the SBR.

How was the Money Spent/Issued? This section presents services or items that were purchased, categorized by Components. Those Components that have a material impact on the SBR are presented separately. Other Components are summarized under Directorates and Other Components, which includes the Domestic Nuclear Detection Office (DNDO), the Federal Law Enforcement Training Centers (FLETC), the Office of Intelligence and Analysis (I&A), the Office of Operations Coordination (OPS), the Management Directorate (MGMT), the Office of Health Affairs (OHA), the Office of Inspector General (OIG), the National Protection and Programs Directorate (NPPD), the Science and Technology Directorate (S&T), U.S. Citizenship and Immigration Services (USCIS), and the U.S. Secret Service (USSS).

For purposes of this schedule, the breakdown of "How Was the Money Spent/Issued" is based on the Office of Management and Budget (OMB) definitions for budget object class found in OMB Circular A-11.

- ***Personnel Compensation and Benefits*** represents compensation, including benefits directly related to duties performed for the government by federal civilian employees, military personnel, and non-federal personnel.
- ***Contractual Service and Supplies*** represents purchases of contractual services and supplies. It includes items like transportation of persons and things, rent, communications, utilities, printing and reproduction, advisory and assistance services, operation and maintenance of facilities, research and development, medical care, operation and maintenance of equipment, subsistence and support of persons, and purchase of supplies and materials.
- ***Acquisition of Assets*** represents the purchase of equipment, land, structures, investments, and loans.
- ***Grants, Subsidies, and Contributions*** represents, in general, funds to states, local governments, foreign governments, corporations, associations (domestic and international), and individuals for compliance with such programs allowed by law to distribute funds in this manner.
- ***Insurance, Refunds, and Other Spending*** represents benefits from insurance and federal retirement trust funds, interest, dividends, refunds, unvouchered or undistributed charges, and financial transfers.

Who did the Money Go To? This section identifies the recipient of the money, by federal and non-federal entities. Amounts in this section reflect "amounts agreed to be spent" and agree to the Obligations Incurred line on the SBR.

The Department encourages public feedback on the presentation of this schedule. Feedback may be sent via email to par@hq.dhs.gov.

Department of Homeland Security
Combined Schedule of Spending
For the Years Ended September 30, 2016 and 2015
(In Millions)

	2016	2015
What Money is Available to Spend?		
Total Resources	$ 88,113	$ 89,074
Less Amount Available but Not Agreed to be Spent	(10,287)	(12,955)
Less Amount Not Available to be Spent	(3,191)	(3,267)
TOTAL AMOUNT AGREED TO BE SPENT	**$ 74,635**	**$ 72,852**
How Was the Money Spent/Issued?		
U.S. Customs and Border Protection		
Personnel Compensation and Benefits	$ 10,866	$ 10,426
Contractual Services and Supplies	3,864	3,584
Acquisition of Assets	1,002	827
Grants, Subsidies, and Contributions	-	11
Insurance, Refunds, and Other Spending	2,047	2,933
Total Spending	**17,779**	**17,781**
U.S. Coast Guard		
Personnel Compensation and Benefits	5,408	5,285
Contractual Services and Supplies	4,396	4,602
Acquisition of Assets	887	950
Grants, Subsidies, and Contributions	43	44
Insurance, Refunds, and Other Spending	5	128
Total Spending	**10,739**	**11,009**
Federal Emergency Management Agency		
Personnel Compensation and Benefits	1,225	1,079
Contractual Services and Supplies	2,000	1,520
Acquisition of Assets	360	266
Grants, Subsidies, and Contributions	11,427	10,763
Insurance, Refunds, and Other Spending	3,956	2,283
Total Spending	**18,968**	**15,911**
U.S. Immigration and Customs Enforcement		
Personnel Compensation and Benefits	3,102	2,940
Contractual Services and Supplies	3,142	3,081
Acquisition of Assets	150	185
Insurance, Refunds, and Other Spending	37	37
Total Spending	**6,431**	**6,243**

(Continued)

Department of Homeland Security
Combined Schedule of Spending
For the Years Ended September 30, 2016 and 2015
(In Millions)

	2016	2015
Transportation Security Administration		
Personnel Compensation and Benefits	4,794	4,692
Contractual Services and Supplies	2,645	2,603
Acquisition of Assets	192	292
Grants, Subsidies, and Contributions	84	87
Insurance, Refunds, and Other Spending	4	3
Total Spending	**7,719**	**7,677**
Directorates and Other Components		
Personnel Compensation and Benefits	4,528	4,263
Contractual Services and Supplies	7,752	7,486
Acquisition of Assets	567	2,329
Grants, Subsidies, and Contributions	149	158
Insurance, Refunds, and Other Spending	3	(5)
Total Spending	**12,999**	**14,231**
Department Totals		
Personnel Compensation and Benefits	29,923	28,685
Contractual Services and Supplies	23,799	22,876
Acquisition of Assets	3,158	4,849
Grants, Subsidies, and Contributions	11,703	11,063
Insurance, Refunds, and Other Spending	6,052	5,379
TOTAL AMOUNT AGREED TO BE SPENT	**$ 74,635**	**$ 72,852**
Who Did the Money Go To?		
Non-Federal Governments, Individuals and Organizations	$ 61,654	$ 57,301
Federal Agencies	12,981	15,551
TOTAL AMOUNT AGREED TO BE SPENT	**$ 74,635**	**$ 72,852**

Summary of Financial Statement Audit and Management Assurances

Table 1 and Table 2 below provide a summary of the financial statement audit results and management assurances for FY 2016.

Table 1: FY 2016 Summary of the Financial Statement Integrated Audit Results

Audit Opinion	Unmodified				
Restatement	No				
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidate**	**Ending Balance**
Financial Reporting	1	0	0	0	1
IT Controls & System Functionality	1	0	0	0	1
Property, Plant & Equipment	1	0	0	0	1
Total Material Weaknesses	**3**	**0**	**0**	**0**	**3**

In FY 2016, the Independent Auditor's Report on the integrated financial statement audit identified three material weakness conditions at the Department level. Consistent with the Independent Auditor's Reports, the Department is providing reasonable assurance on internal control over financial reporting, with the exception of three material weaknesses as identified in Table 2 in FY 2016. Management has performed its evaluation, and the assurance is provided based upon the cumulative assessment work performed on Entity Level Controls, Financial Reporting, Budgetary Resources, Fund Balance with Treasury, Human Resources and Payroll Management, Payment Management, Insurance Management, Grants Management, Property Plant and Equipment, and Revenue and Receivables across the Department. DHS management has remediation work to continue in FY 2017; however, no additional material weaknesses were identified as a result of the assessment work performed in FY 2016. The following table provides those areas where material weaknesses were identified and remediation work continues.

Table 2: FY 2016 Effectiveness of Internal Control Over Financial Reporting

Effectiveness of Internal Control Over Financial Reporting (FMFIA Section 2)					
Statement of Assurance	Modified				
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Financial Reporting	1	0	0	0	1
IT Controls & System Functionality	1	0	0	0	1
Property, Plant & Equipment	1	0	0	0	1
Total Material Weaknesses	**3**	**0**	**0**	**0**	**3**
Effectiveness of Internal Control Over Operations (FMFIA Section 2)					
Statement of Assurance	Unmodified				
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
None noted	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**

CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS (FMFIA SECTION 4)					
Statement of Assurance	**SYSTEMS DO NOT FULLY CONFORM WITH FINANCIAL SYSTEM REQUIREMENTS**				
Non Conformances	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Federal Financial Management Systems Requirements, including Financial Systems Security & Integrate Financial Management Systems	1	0	0	0	1
Noncompliance with the U.S. Standard General Ledger	1	0	0	0	1
Federal Accounting Standards	1	0	0	0	1
Total Non-Conformances	**3**	**0**	**0**	**0**	**3**

COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)		
	DHS	**Auditor**
1. System Requirements	**Lack of compliance**	**Instances of noncompliance**
2. Accounting Standards	**Lack of compliance**	**Instances of noncompliance**
3. USSGL at Transaction Level	**Lack of compliance**	**Instances of noncompliance**

Effectiveness of Internal Control Over Financial Reporting

Pursuant to the Department of Homeland Security Financial Accountability Act, the Department has focused its efforts on evaluating corrective actions to assess whether previously reported material weaknesses continue to exist. Since FY 2005, the Department reduced audit qualifications from 10 to zero and material weaknesses by more than half. In FY 2015, the Department implemented and demonstrated successful remediation activities that corrected budgetary accounting conditions. As a result, DHS reduced one of its four material weaknesses. Although the Department continues to report three material weaknesses in FY 2016, the USCG made significant strides in addressing audit conditions around Real Property—a substantial contributor to the consolidated FY 2015 Department-wide Property, Plant, and Equipment (PP&E) condition.

In FY 2017, DHS will build on USCG's FY 2016 efforts and continue to make internal control improvements across the Department with focused efforts on correcting Financial Reporting, IT Controls and System Functionality, and PPE weaknesses. To support its remediation efforts, the Department's CFO initiated a financial system modernization initiative to address the Component's challenges with remediating the existing material weaknesses and non-compliance with federal financial systems requirements. The Department continues to mature the enterprise-wide financial management framework and its internal control program. The CFO conducts monthly risk management meetings with applicable Components, senior management, and staff.

Table 3 summarizes financial statement audit material weaknesses in internal controls as well as planned corrective actions with estimated target correction dates.

Table 3: FY 2016 Internal Control Over Financial Reporting Corrective Actions

Material Weakness	Component	Year Identified	Target Correction Date
	USCG, NPPD, FEMA, USSS, and CBP	FY 2003	FY 2017
Financial Reporting	NPPD, FEMA, USSS, and CBP experienced challenges with deficiencies in multiple business processes. These issues directly impacted financial reporting. USCG did not establish an effective financial reporting process due to the lack of integrated financial processes and systems resulting in heavy reliance on manual processes.		
Corrective Actions	The DHS CFO will continue to support Components in implementing corrective actions to establish effective financial reporting control activities. In financial reporting areas primarily due to a lack of integrated financial systems, the Department will continue to focus on implementing and executing interim manual compensating measures.		

Material Weakness	Component	Year Identified	Target Correction Date
	DHS	FY 2003	FY 2017
IT Controls and System Functionality	The Department's Independent Public Auditor has identified Financial Systems Security as a material weakness in internal controls since FY 2003 due to inherited control deficiencies surrounding general computer and application controls. FY 2016 showed enterprise-wide IT internal control conditions. The Federal Information Security Management Act mandates that federal agencies maintain IT security programs in accordance with OMB and National Institute of Standards and Technology guidance. In addition, the Department's financial systems do not fully comply with the Federal Financial Management Improvement Act (FFMIA).		
Corrective Actions	The DHS CFO and CIO will support the Components in the design and implementation of internal controls in accordance with DHS 4300A, *Sensitive Systems Handbook, Attachment R: Compliance Framework for CFO Designated Financial Systems*. Remediation efforts will occur across the Department with a risk-based approach to correcting thematic system weaknesses across all CFO designated systems. In addition, the Department will continue to move forward with financial system modernization that will provide substantial compliance with FFMIA.		

<table>
<tr><th rowspan="2">Material Weakness</th><th>Component</th><th>Year Identified</th><th>Target Correction Date</th></tr>
<tr><td>USCG, NPPD, USSS</td><td>FY 2003</td><td>FY 2017</td></tr>
<tr><td>PP&E</td><td colspan="3">The controls and related processes surrounding PP&E to accurately and consistently record activity are either not in place or contain errors and omissions.</td></tr>
<tr><td>Corrective Actions</td><td colspan="3">USCG, NPPD, and USSS will implement and sustain policies and procedures to support completeness, existence, and valuation over PP&E. Specifically, USCG will build upon its FY 2016 progress over remediating real property and expand its focus to correcting remaining Construction-in-Process conditions. The DHS CFO will continue efforts to support USCG, NPPD, and USSS in implementing corrective actions to address capital asset conditions and develop policies and procedures to establish effective property management and internal control over financial reporting activities.</td></tr>
</table>

Effectiveness of Internal Control Over Operations

The Department's Management Directorate (MGMT) is dedicated to ensuring that departmental offices and Components perform as an integrated and cohesive organization, focused on the Department's frontline operations to lead efforts to achieve a safe, secure, and resilient homeland. Critical to this mission is a strong internal control structure. As we strengthen and unify DHS operations and management, we will continually assess and evaluate internal controls to ensure the effectiveness and efficiency of operations and compliance with laws and regulations. We continue to make tremendous progress in strengthening Department-wide internal control over operations, as evidenced by the following FY 2016 achievements:

- During FY 2016, the Office of the Chief Financial Officer through the Cost Analysis Division (CAD) continued to provide direct support, direction, and guidance to DHS Component Acquisition Executives, which strengthened the Department's cost estimating capabilities. As a result, CAD achieved 100 percent compliance, meaning that all major acquisition programs across DHS have a Department approved Life Cycle Cost Estimate.

- The Office of Program Accountability and Risk Management (PARM) created an infrastructure that promotes DHS-wide acquisition program data accuracy. PARM automated the Master Acquisition Oversight List, which is a tool for acquisition management and reporting purposes. This tool increases efficiency and effectiveness by automating the change request process. PARM will continue to track the tools usage and effectiveness in FY 2017.

- The Office of the Chief Security Officer enhanced its personnel security metrics report that enables the Personal Security Division to identify areas for process improvement and accurately depict current levels of service being provided to the supported Components. The Personnel Security Division is in the final stages of implementing this report for the entire DHS personnel security enterprise, including operational Components.

- The Office of the Chief Readiness Support Office (OCRSO) increased operational efficiency within multiple programs. OCRSO established the Marine Governance Board to bring together and provide centralized oversight of those Component programs that acquire and operate marine assets to ensure the tools, equipment and processes are integrated whenever possible. OCRSO chartered and established the strategic plan for the OCRSO "Systems Integration Office," which acts as a single authority for positioning data as a strategic asset, driving data-driven decision making, and maturing the consistency, quality, and timeliness of enterprise asset and sustainability information.

- The Office of the Chief Information Officer (OCIO) strengthened DHS's cybersecurity by achieving ongoing Department-wide improvements, established in 2015, through the FY 2016 DHS Annual Information Security Performance Plan. In addition, DHS continued its aggressive implementation of the HSPD-12 Smartcard usage for logical access (login capability) to DHS unclassified networks. This resulted in an increase for unprivileged users to 99 percent and maintenance of 99 percent for privileged DHS Federal and contract staff Smartcard users across the nation. DHS was able to successfully exceed OMB's FY 2016 goal for unprivileged users by 14 percent.

Improper Payments Elimination and Recovery Improvement Act

The Improper Payments Information Act of 2002 (IPIA) (Pub. L. 107-300), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) (Pub. L. 111-204) and Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA); (Pub. L. 112-248), requires agencies to review and assess all programs and activities they administer and identify those determined to be susceptible to significant improper payments, estimate the annual amount of improper payments, and submit those estimates to Congress. A program with significant improper payments (or a high-risk program) has both a 1.5 percent improper rate and at least $10 million in improper payments, or exceeds $100 million dollars regardless of the error rate. Additionally, federal agencies are required to reduce improper payments and report annually on their efforts according to guidance promulgated by the Office of Management and Budget (OMB) in OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*. The Department performs testing to estimate the rates and amounts of improper payment, establishes improper payment reduction targets in accordance with OMB guidance, and develops and implements corrective actions.

In FY 2016, the Department's overall improper payment error rate over FY 2015 disbursements is 1.02%. Despite demonstrating an overall improper payment error rate reduction from FY 2015 to FY 2016, the Department did not meet its annual improper payment reduction targets within 0.1% established for every program identified as susceptible to improper payments, which is an OMB requirement. The Department will continue its efforts to prevent and reduce improper payments and meet annual reduction targets. We remain strongly committed to ensuring our agency's transparency and accountability to the American taxpayer and achieving the most cost effective strategy on the reduction of improper payments.

I. Risk Assessments

In accordance with IPERA Section 2(a), agency heads are required to "review all programs to identify risk susceptibility for improper payments every three years." In FY 2016, the Department established quantitative and qualitative criteria that allowed Components to identify programs with lower risk susceptibility. DHS allows these programs to be evaluated through a detailed risk assessment process every three years. The Department requires all other programs to be detail risk assessed annually. In FY 2016, DHS conducted risk assessments on 56 DHS programs and over $52.8B of disbursements. The Department assessed all payment types except for federal Intra-governmental payments which were excluded based on the definition of an improper payment contained in IPERIA.

In late October 2012, Hurricane Sandy devastated portions of the Mid-Atlantic and northeastern United States, leaving victims of the storm and their communities in need of immediate disaster relief aid. On January 29, 2013, the President signed the Disaster Relief Appropriations Act (DRAA). According to DRAA, all Federal programs or activities receiving funds under that Act are automatically considered susceptible to significant improper payments, regardless of any previous improper payment risk-assessment results, and are required to calculate and report an improper payment estimate. The Department tested all Hurricane Sandy-related FY 2015 payments for the remaining programs receiving this funding.

For all 56 DHS programs that were risk assessed in FY 2016, risk assessment meetings were held with program owners, key personnel, and other stakeholders to discuss the inherent risk of improper payments according to eight risk factors which directly or indirectly affect the likelihood of improper payments within the program. The risk factors that were considered are as follows:

1. Payment Processing Controls – Includes review of: management's implementation of internal controls over payment processes, including existence of current documentation, the assessment of design and operating effectiveness of internal controls over payments, the identification of deficiencies related to payment processes and whether or not effective compensating controls are present, and the results of prior improper payment sample testing.
2. Quality of Internal Monitoring Controls – Includes review of: periodic internal program reviews to determine if payments are made properly, strength of documentation requirements and standards to support tests of design and operating effectiveness for payment controls, and presence or absence of compensating controls.
3. Human Capital – Includes review of: experience and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate, ability of staff to handle peak payment requirements, level of management oversight and monitoring against fraudulent activity, and newness of program to the agency.
4. Complexity of Program – Includes the review of: complexity and variability of interpreting and applying laws, regulations, and standards required of the program, changes in funding, authorities, practices or procedures, and newness of program to the agency.
5. Nature of Payments and Recipients – Includes the review of: the type, volume, and size of payments, length of payment period, quality of recipient financial infrastructure and procedures, and recipient experience with federal award requirements.
6. Operating Environment – Includes the review of: inherent risks of improper payments due to nature of programs or operations, existence of factors that necessitate or allow for loosening of financial controls, any known instances of fraud, and management's experience with designing and implementing compensating controls.
7. Additional Grant Programs Factors – Includes the review of: Federal Audit Clearinghouse information on quality of controls within grant recipients, identification of deficiencies or history of improper payments within recipients, type and size of program recipients and sub-recipients, maturity of recipients' financial infrastructure, experience with administering federal payments, number of vendors being paid, and number of layers of sub-grantees.
8. Contract Payment Management – Includes the review of: identification of contract management weaknesses identified in previous payment testing, discrepancies between Contracting Officer Representatives (COR) reviewing and approving invoices with the COR(s) listed in the contract, contractors reviewing and approving invoices on behalf of the COR, lack of familiarity with goods and services listed on invoices, time available to review invoices prior to payment, sufficiency of supporting documentation to support invoice amount prior to payment, and completeness of contract file in order used to verify agreed upon amounts for goods and/or services.

Program managers and Component's internal controls division assigned a risk rating to each risk factor based on their detailed understanding of the processes and risk of improper payment. Weighted percentages were assigned to each risk factor rating based on a judgmental determination of the direct or indirect impact on improper payments. An overall risk score was then computed for each program, calculated by the sum of the weighted scores for each risk factor and overall rating scale. The susceptibility of programs to make improper payments was determined using both qualitative and quantitative risk analysis. A weighted average of 65 percent for Qualitative factors and 35 percent for Quantitative Risk yields the program's overall risk score.

Additionally, the Office of Risk Management and Assurance conducted reviews and comparison to previous year's program risk assessment and improper payment testing results to identify significant changes in the program and assess the reasonableness of the risk ratings. The Department also reviewed the results from the Office of Inspector General, Department of Homeland Security's FY 2015 Compliance with the Improper Payments Elimination and Recovery Act of 2010, (OIG-16-88). All recommendations from the report were implemented during FY 2016.

Exhibit 4: Programs Assessed for Risk of Improper Payments in FY 2016[1]

Item	Component	Program ID	Below Statutory Thresholds	Susceptible to Significant Improper Payments	Year Rate and Amount will be Reported
1	CBP	Continued Dumping Subsidy Offset Act of 2000 (CDSOA) & Wool	Yes	No	N/A
2	CBP	Construction	Yes	No	N/A
3	CBP	Operations & Maintenance	Yes	No	N/A
4	CBP	User Fees	Yes	No	N/A
5	CBP	Automation Modernization	Yes	No	N/A
6	CBP	Salaries and Expense (excluding Administrative Uncontrollable Overtime-AUO)	Yes	No	N/A
7	CBP	Border Security Fencing	Yes	No	N/A
8	CBP	Puerto Rico & Virgin Islands	Yes	No	N/A
9	DNDO	Management Administration	Yes	No	N/A
10	DNDO	System Acquisition	Yes	No	N/A
11	DNDO	Research Development & Operations	Yes	No	N/A
12	FEMA	Payroll (Disaster Relief Fund) DRF & Non-DRF/DRF Sandy Disbursements	Yes	No	N/A
13	FEMA	DRF Travel	Yes	No	N/A
14	FEMA	DRF Hazard Mitigation Grant Program	Yes	No	N/A
15	FEMA	DRF Individual & Household Program (IHP)	Yes	No	N/A
16	FEMA	AFG Fire Prevention Program	Yes	No	N/A
17	FEMA	AFG Staffing for Adequate Fire and Emergency Response (SAFER)	Yes	No	N/A
18	FEMA	Emergency Food & Shelter Program (EFSP)	Yes	No	N/A
19	FEMA	Emergency Management Performance Grant (EMPG)	Yes	No	N/A

Item	Component	Program ID	Below Statutory Thresholds	Susceptible to Significant Improper Payments	Year Rate and Amount will be Reported
20	FEMA	Training and Grants (Grants and Training)	Yes	No	N/A
21	FLETC	Management & Administration (FMA)	Yes	No	N/A
22	FLETC	Law Enforcement Training	Yes	No	N/A
23	FO/HQ	Management & Administration	Yes	No	N/A
24	I&A	Analysis and Operations	Yes	No	N/A
25	OHA	BioWatch	Yes	No	N/A
26	OHA	Salaries & Expenses	Yes	No	N/A
27	OIG	Audit, Inspection and Investigation	Yes	No	N/A
28	ICE	Homeland Security Investigations	Yes	No	N/A
29	ICE	Office of the Assistant Secretary	Yes	No	N/A
30	ICE	Management (MGMT)	Yes	No	N/A
31	ICE	Service wide Agreement	Yes	No	N/A
32	ICE	Travel	Yes	No	N/A
33	ICE	Purchase & Fleet Card	Yes	No	N/A
34	ICE	Payroll	Yes	No	N/A
35	NPPD	Federal Protective Service (FPS)	Yes	No	N/A
36	NPPD	NPPD Legacy Office of the Under Secretary (OUS), Cybersecurity and Communications (CS&C), Infrastructure Protection (IP), and Office of Cyber and Infrastructure Analysis (OCIA)	Yes	No	N/A
37	NPPD	Office of Biometric Identity Management (OBIM)	Yes	No	N/A
38	NPPD	Payroll (NPPD Wide)	Yes	No	N/A
39	S&T	Management & Administration	Yes	No	N/A
40	S&T	Research & Development	Yes	No	N/A
41	TSA	Transportation Security Support (Administrative Support)	Yes	No	N/A
42	TSA	Aviation Security Support	Yes	No	N/A
43	TSA	Federal Air Marshal Service	Yes	No	N/A
44	TSA	Surface Transportation	Yes	No	N/A
45	TSA	Threat Assessment and Credentialing	Yes	No	N/A
46	USCG	Acquisitions/Constructions and Improvements (AC&I)	Yes	No	N/A
47	USCG	Operating Expenditures (OE)	Yes	No	N/A

Item	Component	Program ID	Below Statutory Thresholds	Susceptible to Significant Improper Payments	Year Rate and Amount will be Reported
48	USCG	OE Aviation Logistics Center (ALC)	Yes	No	N/A
49	USCG	Surface Force Logistics Center (SFLC) Operating Expense (OE)	Yes	No	N/A
50	USCG	Retired Pay	Yes	No	N/A
51	USCIS	Adjudications Program Code 20	Yes	No	N/A
52	USCIS	Administration Program Code 50	Yes	No	N/A
53	USSS	Protection	Yes	No	N/A
54	USSS	Investigations	Yes	No	N/A
55	USSS	District of Columbia (D.C.) Annuity	Yes	No	N/A
56	USSS	Acquisitions	Yes	No	N/A

Note 1: Per OMB Circular A-136, only programs not already reporting an improper payment estimate are listed in this exhibit.

The following programs were deemed to be susceptible to significant improper payments:

Exhibit 5: Programs Susceptible to Significant Improper Payments Based on Prior Year Payment Sample Testing

Component	Program	FY 2015 Disbursements ($ Million)[1]
CBP	Refund & Drawback (R&D)	$3,008.52
	Administratively Uncontrollable Overtime (AUO)	$172.98
DNDO	Systems Acquisition – Hurricane Sandy (DNDO – Sandy)	$0.06
FEMA	Assistance to Firefighters Grant Program (AFG)	$270.91
	Flood Risk Map – Flood Hazard Mapping & Risk Analysis Program (FRM&RA)	$111.25
	Homeland Security Grant Program (HSGP)	$658.63
	National Flood Insurance Program (Flood Claims) (NFIP)	$828.97
	Port Security Grant Program (PSGP)	$117.38
	Public Assistance Program (PA)	$4,198.30
	Transit Security Grant Program (TSGP)	$218.48
	Vendor Pay (VP)	$581.51
ICE	Enforcement & Removal Operations (ERO)	$1,616.01
OIG	Hurricane Sandy Payroll & Travel (OIG – Sandy)	$0.17
S&T	Research & Development – Hurricane Sandy (S&T Sandy)	$2.08
USCG	Acquisition, Construction, & Improvements - Hurricane Sandy (USCG – Sandy)	$70.00
Total Disbursements		**$11,855.25**

Note 1: All amounts are rounded to the nearest whole dollar

II. Sampling and Estimation

We used a statistically valid, stratified sampling design to select and test FY 2015 disbursements. The sampling design and execution was performed by a statistician. Our procedures provided an overall estimate of the percentage of improper payment dollars within ±2.5 percent precision at the 90 percent confidence level, as specified by OMB M-03-13 guidance.

Using a stratified random sampling approach, payments were grouped into mutually exclusive "strata," or groups based on total dollars. A stratified random sample typically required a smaller sample size than a simple random sample to meet the specified precision goal at any confidence level. Once the overall sample size was determined, the individual sample size per stratum was determined using the Neyman Allocation method.

The following procedure describes the sample selection process:

- Grouped payments into mutually exclusive strata;
- Assigned each payment a random number generated using a seed;
- Sorted the population by stratum and random number within stratum; and
- Selected the number of payments within each stratum (by ordered random numbers) following the sample size design. For the certainty strata, all payments are selected.

To estimate improper payment dollars for the population from the sample data, the stratum-specific ratio of improper dollars (gross, underpayments, and overpayments, separately) to total payment dollars was calculated. FEMA Homeland Security Grant Program and Public Assistance Program used an OMB approved alternative sampling methodology for multi-year targeted sampling plan due to population size.

While the Department generally uses a statistical sampling methodology, there were two programs in which the payment population contained a low number of transactions. It was determined that statistical sampling may not be applicable or an efficient approach. Accordingly, the Department has performed a complete review (100 percent of transactions and payments) for the following Component programs/activities.

- DNDO – Hurricane Sandy payments
- S&T – Hurricane Sandy payments

III. Improper Payment Reporting

The table below summarizes Improper Payment (IP) amounts for DHS high-risk programs. It provides a breakdown of estimated IP and an outlook for IP reductions for each DHS program or activity reporting under OMB Circular A-123, Appendix C, Part I.A.9.Step 2 or Part I.A.14 or for programs that OMB automatically deemed susceptible to significant IPs. IP percent (IP%) and IP dollar (IP$) results are provided from last year's testing of FY 2014 payments and this year's testing of FY 2015 payments. Data for projected future−year improvements is based on the timing and significance of completing corrective actions.

IPERIA Table 1: Improper Payment Reduction Outlook

($ in millions)

Program	PY Outlays[4]	PY IP%[3]	PY IP$[3]	CY Outlays	CY IP%	CY IP$	CY Over payment $	CY Under payment $	CY +1 Est. Outlays	CY +1 Est. IP%	CY +1 Est. IP$	CY + 2 Est. Outlays	CY + 2 Est. IP%	CY + 2 Est. IP$	CY + 3 Est. Outlays	CY + 3 Est. IP%	CY + 3 Est. IP$
	2015 Testing (Based on FY 2014 Actual Data)			2016 Testing (Based on FY 2015 Actual Data)					2017 Testing (Will be based on FY 2016 Actual and Estimated Data)			2018 Testing (Will be based on 2017 Estimated Data)			2019 Testing (Will be based on 2018 Estimated Data)		
CBP – R&D	$1,590.56	0.24%	$3.88	$3,008.52	0.35%	$10.52	$10.51	$0.01	$2,024.33	0.24%	$4.86	$2,024.33	0.24%	$4.86	$2,024.33	0.24%	$4.86
CBP – AUO[10]	$337.96	0.25%	$0.84	$172.98	0.01%	$0.01	$0.01	$0.00	$10	0.20%	$0.02	$10	0.20%	$0.02	$10	0.20%	$0.02
CBP – Sandy[5]	$0.465	0.14%	$0.0007	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
DNDO – Sandy[1]	$0.047	0.00%	$0.00	$0.06	0.00%	$0.00	$0.00	$0.00	$0.00	0.00%	$0.00	$0.00	0.00%	$0.00	$0.00	0.00%	$0.00
FEMA – AFG[8]	$224.90	0.64%	$1.44	$270.91	0.85%	$2.29	$2.29	$0.00	$270.91	0.85%	$2.29	$270.91	0.85%	$2.29	$270.91	0.85%	$2.29
FEMA – FRM&RA	$131.00	8.33%	$10.92	$111.25	5.49%	$6.11	$6.11	$0.003	$136.00	5.00%	$6.80	$136.00	5.00%	$6.80	$136.00	5.00%	$6.80
FEMA – HM – Sandy[5]	$34.03	0.00%	$0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FEMA – HSGP[2,8]	$1,496.52	1.20%	$17.96	$658.63	0.42%	$2.77	$2.28	$0.49	$658.63	0.42%	$2.77	$658.63	0.42%	$2.77	$658.63	0.42%	$2.77
FEMA – IHP[5]	$23.97	7.01%	$1.68	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FEMA – NFIP[8]	$894.36	0.16%	$1.47	$828.97	0.17%	$1.38	$0.003	$1.38	$829.00	0.17%	$1.41	$829.00	0.17%	$1.41	$829.00	0.17%	$1.41
FEMA – PA[2]	$3,902.65	1.45%	$56.58	$4,198.30	1.36%	$57.10	$57.10	$0.00	$4,198.00	1.30%	$54.57	$4,198.00	1.30%	$54.57	$4,198.00	1.30%	$54.57
FEMA – PSGP[8]	$300.89	0.67%	$2.02	$117.38	0.97%	$1.14	$1.14	$0.00	$121.57	0.94%	$1.14	$121.57	0.94%	$1.14	$121.57	0.94%	$1.14
FEMA – TSGP[8]	$353.26	0.88%	$3.12	$218.48	0.68%	$1.49	$1.49	$0.00	$211.06	0.70%	$1.49	$211.06	0.70%	$1.49	$211.06	0.70%	$1.49
FEMA – VP	$733.62	7.50%	$54.99	$581.51	5.40%	$31.43	$31.39	$0.04	$689.85	5.00%	$34.49	$689.85	5.00%	$34.49	$689.85	5.00%	$34.49
ICE – ERO [7]	$1,525.28	4.06%	$61.94	$1,616.01	0.36%	$5.75	$5.75	$0.0003	$1,640.65	1.25%	$20.51	$1,663.58	1.25%	$20.79	$1,698.85	1.25%	$21.24
NPPD – Sandy[5]	$1.02	0.00%	$0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
OIG – Sandy[9]	$2.00	0.00%	$0.00	$0.17	1.76%	$0.003	$0.003	$0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
S&T – Sandy[1]	$0.28	0.00%	$0.00	$2.08	0.00%	$0.00	$0.00	$0.00	$0.70	0.00%	$0.00	$0.00	0.00%	$0.00	$0.00	0.00%	$0.00
USCG – Sandy	$39.54	1.44%	$0.57	$70.00	0.66%	$0.46	$0.46	$0.00	$30.00	0.50%	$0.15	$10.00	0.50%	$0.05	$3.00	0.50%	$0.02
All Programs[6]	**$11,592.35**	**1.88%**	**$217.41**	**$11,855.25**	**1.02%**	**$120.45**	**$118.54**	**$1.92**	**$10,820.70**	**1.21%**	**$130.50**	**$10,822.93**	**1.21%**	**$130.68**	**$10,851.20**	**1.21%**	**$131.10**

Note 1: All FY 2015 Hurricane Sandy Disbursements were tested in FY 2016.

Note 2: FEMA has two State-Administered Programs, HSGP and PA, that are tested on a three-year cycle. To calculate the national error rate for FY 2015 actual data, error rate from the States tested in FY 2013, FY 2014, and FY 2015 were applied to the FY 2015 State payment populations to derive a national average. Estimated outlays for FEMA programs were calculated by averaging the total disbursements for the past three fiscal years, due to the volatile nature of the programs tested. This alternative sampling and estimation method was previously approved by OMB.

Note 3: The PY improper payment estimates reported in the table above reflect the improper payment estimates for FY 2014 as reported in the FY 2015 AFR.

Note 4: The source of FY 2014 outlays for all programs is as presented in the FY 2015 AFR.

Note 5: This program did not record Hurricane Sandy related outlays in FY 2015.

Note 6: The total of the estimates for the department does not represent a true statistical estimate for the department.

Note 7: ICE implemented successful remediation actions from FY 2013 through FY 2015. The impact and focus on remediation is evidenced by the decreased improper payment rate of 0.36% for FY 2015 disbursements. Although the improper payment rate was 0.36% for FY 2015 disbursements, the ERO Program activity is over $100 million and will continue to be considered susceptible to improper payments for future years. Based on several years of historical improper payment rates around 4%, with the goal of reducing improper payments, ICE projects the improper payment to be 1.5%. ICE believes that the 0.36% could be an anomaly due to heighted focus on corrective actions and it may not represent a true baseline.

Note 8: FEMA met the OMB Circular A-123 Appendix C statutory threshold of below 1.5% and $10M. FEMA exceeded the goal by being below 1% for AFG, HSGP, NFIP, PSGP, and TSGP as well as having an extrapolated error amount below $3M for these programs. The FY 2017 – FY 2019 estimated error rates remained consistent with the FY 2016 reported error rate. These error rates reflect the residual risk of improper payments based on the implementation of internal controls that are designed to provide reasonable assurance against improper payments. The cost to implementing additional internal controls to try to further reduce the improper payment rate would far outweigh the benefit.

Note 9: This program does not have any remaining Hurricane Sandy funds therefore this program will not be tested in future years.

Note 10: Because AUO ended for CBP Border Patrol in May 2015, DHS projects to report significantly decreased outlays in FY 2017 for CBP AUO. Only Air and Marine Officers eligible for AUO moving forward.

IV. Improper Payment Root Cause Categories

We found that the underlying root cause of improper payments for the programs tested in FY 2016 were due to failure to verify financial data, administrative or process error made by Federal Agency, and insufficient documentation to determine. The root causes were identified through improper payment testing and categorized using categories of error as defined in the October 2014 update to OMB Circular A-123, Appendix C (OMB Memorandum M-15-02). The table below provides overpayment and underpayment breakouts for the Department's high-risk programs. The table shows that over 98 percent of the Department's estimated improper payments are due to overpayments.

IPERIA Table 2: Improper Payment Root Cause Category Matrix

($ in millions)

Program Name	Payment Type	Program Design or Structural Issue	Inability to Authenticate Eligibility	Failure to Verify: Death Data	Failure to Verify: Financial Data	Failure to Verify: Excluded Party Data	Failure to Verify: Prisoner Data	Failure to Verify: Other Eligibility Data (explain)	Administrative or Process Errors Made by: Federal Agency	Administrative or Process Errors Made by: State or Local Agency	Administrative or Process Errors Made by: Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)	Medical Necessity	Insufficient Documentation to Determine	Other Reason 1 (add footnote)	**TOTAL**
CBP - Refund and Drawback	Overpayments												$10.51		**$10.51**
	Underpayments								$0.01						**$0.01**
CBP - AUO	Overpayments												$0.01		**$0.01**
	Underpayments														**$0.00**
DNDO - System Acquisition	Overpayments														**$0.00**
	Underpayments														**$0.00**
FEMA – AFG[1, 2]	Overpayments				$2.13			$0.07						$0.09	**$2.29**
	Underpayments														**$0.00**

Program Name	Payment Type	Program Design or Structural Issue	Inability to Authenticate Eligibility	Failure to Verify: Death Data	Failure to Verify: Financial Data	Failure to Verify: Excluded Party Data	Failure to Verify: Prisoner Data	Failure to Verify: Other Eligibility Data (explain)	Administrative or Process Errors Made by: Federal Agency	Administrative or Process Errors Made by: State or Local Agency	Administrative or Process Errors Made by: Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)	Medical Necessity	Insufficient Documentation to Determine	Other Reason 1 (add footnote)	**TOTAL**
FEMA – FRM&RA	Overpayments								$6.01				$0.10		**$6.11**
	Underpayments								$0.00						**$0.00**
FEMA - HSGP	Overpayments				$1.87								$0.41		**$2.28**
	Underpayments								$0.49						**$0.49**
FEMA - NFIP	Overpayments										$0.00				**$0.00**
	Underpayments										$1.38				**$1.38**
FEMA - PA	Overpayments				$48.29					$1.97			$6.84		**$57.10**
	Underpayments														**$0.00**
FEMA - PSGP	Overpayments				$1.14										**$1.14**
	Underpayments														**$0.00**
FEMA - TSGP	Overpayments				$1.41								$0.08		**$1.49**
	Underpayments														**$0.00**
FEMA - VP	Overpayments								$0.93				$30.46		**$31.39**
	Underpayments								$0.04						**$0.04**

Program Name	Payment Type	Program Design or Structural Issue	Inability to Authenticate Eligibility	Failure to Verify: Death Data	Failure to Verify: Financial Data	Failure to Verify: Excluded Party Data	Failure to Verify: Prisoner Data	Failure to Verify: Other Eligibility Data (explain)	Administrative or Process Errors Made by: Federal Agency	Administrative or Process Errors Made by: State or Local Agency	Administrative or Process Errors Made by: Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)	Medical Necessity	Insufficient Documentation to Determine	Other Reason 1 (add footnote)	TOTAL
ICE - ERO	Overpayments								$3.58				$2.17		**$5.75**
	Underpayments								$0.00						**$0.00**
OIG - Hurricane Sandy	Overpayments								$0.003						**$0.003**
	Underpayments														**$0.00**
S&T - Vendor Payment	Overpayments														**$0.00**
	Underpayments														**$0.00**
USCG - Hurricane Sandy	Overpayments								$0.46						**$0.46**
	Underpayments														**$0.00**
														DHS TOTAL	**$120.46**

Note 1: FEMA AFG "Other Reason" Overpayment of $0.09 is due to Grantee never purchasing items related to grant. Funds are being held in non-interest bearing account until closeout.

Note 2: FEMA AFG "Failure to Verify: Other Eligibility data" Overpayment of $0.07 is due to invoice not in the period of performance.

V. Improper Payment Corrective Actions

The following table list corrective actions for the FEMA Vendor Pay (VP) program, which exceeds the statutory threshold of a 1.5 percent improper rate and $10 million in improper payments, prescribed by OMB. These corrective actions are targeted at addressing the root causes of insufficient documentation and administrative or process errors. FEMA will implement, or has implemented, the following corrective actions to ensure greater compliance. With the implementation of these actions, FEMA expects to reduce improper payments by 0.40 percentage points in 2017. The Financial Assurance and Audit Liaison Division Chief of FEMA serves as the liaison between the CFO and the Office of the Chief Procurement Officer (OCPO) to implement the remaining corrective actions.

Exhibit 6: Planned Vendor Payment Program Corrective Actions

Error Cause	Corrective Actions	Completion Date
Improve Quality of Contracts		
Insufficient Documentation to Determine	FEMA OCPO to issue policy guidance regarding required CLIN structure to be included in contracts.	Completed - November 2015
	Draft and incorporate standardized billing instructions to be included in all contracts, defining the standard form and content of billings for different contract types. Incorporate standard billing instructions in contract writing system.	Completed - August 2015
	Revise contract template to include standard section for authorized invoice approver, designated payment office, and authorized official for receiving and acceptance.	Completed - August 2015
	FEMA OCPO to issue policy guidance requiring attachments or quotes incorporated by referenced to be included as part of the official contract document and maintained in the electronic contract file.	3/31/2017
Improve Quality of Program Review of invoices		
Administrative or Process Error Made by Federal Agency	Conduct mandatory training for all CORs and CO's on proper invoice review and approval.	Completed training module 7/2013. Training ongoing/quarterly.
	Develop invoice review checklist addressing payments of different types, and what needs to be validated based on payment type.	3/31/2017
	Conduct training for Vendor Payment Accounting technicians on proper review of invoices for adequacy.	Completed - May 2016
Improve Receiving and Acceptance		
Administrative or Process Error Made by Federal Agency	Develop a standard Inspection, Acceptance and Receiving Report for FEMA COTR's for support of invoices.	Completed - January 2016
	Conduct mandatory training for all CORs and CO's on proper documentation of receiving, inspection, and acceptance.	3/31/2017

VI. Internal Control over Payments

DHS has a well-established internal control environment that focuses on improper payment prevention, detection, and recovery. These controls are an integral part of the Department's internal control framework; therefore, we are directly leveraging our existing internal control environment and assurance processes (OMB Circular A-123 Appendix A assessment) to provide reasonable assurance that our internal controls over improper payments are in place and operating effectively.

As required by FMFIA, the Department periodically assesses the payment controls for design and operating effectiveness to enable timely and reliable financial management information and accountability. As part of the detailed risk assessment process, the Components performed an internal control assessment for the identified high risk programs which focused on payment controls over FY 2015 disbursements. An internal interview questionnaire containing 29 attributes that address the five COSO components (*Control Environment*, *Risk Assessment*, *Control Activities*, *Information & Communication*, and *Monitoring)* was completed in 1st Quarter of FY 2016, for FY 2015 payments. The Office of Risk Management and Assurance reviewed the assessment results and compared FY 2015 to FY 2014 payments to identify areas of potential risk or internal control weaknesses.

The self-assessment results on the status of internal controls, over payments, for the FEMA VP program is discussed below. FEMA regularly processes information from many data sources, and as such, there is a continuous need to obtain additional data and verify that the sources of data are accurate and reliable. Even though FEMA has various systems and quality control measures in place, the A-123 ITGC Assessments identified several gaps that may pose a risk to the completeness, accuracy, and validity of the financial data. The Department has taken corrective actions to ensure compliance with IPERA remains paramount and continues to serve as the gold-standard for other Federal agencies. These actions include developing corrective action plans that have been vetted and approved by key stakeholders.

IPERIA Table 3: Status of Internal Controls over the FEMA VP Program

Internal Control Standards	FEMA Vendor Pay
Control Environment	2
Risk Assessment	3
Control Activities	2
Information and Communication	3
Monitoring	2

Legend:

4 = Sufficient controls are in place to prevent improper payments.
3 = Controls are in place to prevent improper payments but there is room for improvement.
2 = Minimal controls are in place to prevent improper payments.
1 = Controls are not in place to prevent improper payments.

VII. Accountability

The goals and requirements of IPERIA were communicated to all levels of staff throughout the Office of the Chief Financial Officer and to relevant program office and procurement staff. The Department has taken extensive measures to ensure that managers, accountable officers (including Component CFOs), programs, and states and localities are held accountable for reducing and recapturing improper payments. The Department's CFO and senior staff have incorporated improper payment reduction targets in their annual performance plans.

Managers are responsible for completing internal control work on payment processing as part of the Department's OMB Circular A-123 effort. They are further responsible for establishing and maintaining sufficient internal controls, including a control environment that prevents improper payments from being made, effectively manage improper payment risk, and promptly detect and recover any improper payment that may occur. Management's improper payments efforts are subject to an annual compliance review by the DHS's Office of Inspector General.

VIII. Agency Information Systems and Other Infrastructure

The Department's information systems efforts are discussed under the *Management Assurances* section. The Department's internal control and human capital efforts to reduce improper payments are discussed under the *Improper Payments Information Action - Risk Assessment* section.

IX. Barriers

After discussions with DHS Components on the ability to recoup or reduce improper payment, there are no statutory or regulatory barriers that will impact the ability of Components to successfully complete corrective actions to reduce improper payments.

X. Recapture of Improper Payments

During FY 2016, the Department did not have any recovery audit activities for FY 2015 disbursements. The Department and its Components conducted multiple cost analysis reviews over the past several years and determined that payment recapture audit programs are not cost-effective.

In FY 2012, FLETC and USSS conducted an analysis of payment recapture audit programs, determining that a general recovery audit would not be cost effective for either Component. DHS provided the results of the analysis to OMB in 2012 and OMB concurred with the Department's conclusion. Because there have been no major changes to payment operations or risks at FLETC or USSS, since the Components performed the initial cost analysis, the Department did not require that recovery audit work be performed by the USSS or FLETC in FY 2016.

In FY 2015, CBP, ICE, and USCG attempted to obtain contract support to perform recovery audits over FY 2014 disbursements. In all three cases, the contractor declined to accept the contracts, citing that minimal recovery amounts were expected and it would be too costly for the vendor to perform the recovery audit for the Components. Based on the inability to secure contract support and historically low amounts identified for recovery, CBP and ICE concluded that it was not cost-effective to perform payment recapture audits. ICE's determination also applied to the Components it cross-services: MGMT, NPPD, OHA, S&T, and USCIS. OMB was notified in July 2015 and concurred with DHS's analysis that payment recapture audit programs would not be cost-effective for CBP or ICE and its serviced Components.

After it was unable to obtain contract support, USCG decided to conduct internal recovery audit activities over its FY2014 disbursements and those of TSA and DNDO, the Components USCG cross-services. USCG analyzed the results of the internal recovery audit and noted that it cost significantly more to perform the recovery audit than was identified in payments for recapture. As a result, the Department determined that it was not cost-effective to continue to perform payment recapture audits at USCG, TSA, or DNDO. DHS provided the results of the analysis to OMB in September 2016, and OMB concurred with the Department's conclusion.

Historically recovery audit efforts at FEMA have focused primarily on contracts, as grant system limitations make it cost prohibitive to generate the files needed to perform recovery audit work. FEMA has not been required to perform payment recapture audit work in previous years due to the work proven to be cost-effective. During FY 2016, the Office of Inspector General conducted a full review of NFIP payments at FEMA in response to fraud claims for payments related to Hurricane Sandy. FEMA requested that this full review of NFIP payments be used for recovery audit work in FY 2016, which was approved by RM&A staff. The review identified primarily underpayments, not overpayments. Therefore, FEMA was not required to recapture payment activity identified as part of the FY 2016 OIG audit.

Based on the waivers in place from previous years or recent approvals by OMB and the OIG's audit over NFIP payments primarily identifying overpayments, overpayments recaptured through Payment Recapture audits data is not applicable in the following three tables. Table 7 reports overpayments identified outside of recapture audit programs through high dollar overpayment reviews, the contract closeout processes, or self-reported by vendors. Subsequent to any significant payment operation changes or risks, DHS will review the determination that it is not cost-effective to perform payment recapture audit activities across the Department.

IPERIA Table 4: Overpayment Payment Recaptured with and without Recapture Audit Programs

($ in millions)

	Overpayments Recaptured through Payment Recapture Audits[1]																						Overpayments Recaptured outside of Payment Recapture Audits[4]	
	Contracts					Grants					Benefits					Loans					Total			
Component	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	Amount Identified	Amount Recaptured
CBP[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0.13	$0.13
DNDO[1,2]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$1.06	$1.06
FEMA[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0	$0
FLETC[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0	$0
ICE[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0	$0
MGMT[1,3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0.54	$0.54
NPPD[1,3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0.32	$0.20
OHA[1,3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0	$0
S&T[1,3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0	$0
TSA[1,2]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0.88	$0.88
USCG[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0.97	$0.75
USCIS[1,3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0	$0
USSS[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0.03	$0.03
DHS Totals	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**$3.93**	**$3.59**

Note 1: During FY 2016, no recapture audits were performed due to the inability of components to obtain appropriate contract support to perform the audits. Normally, these contracts payments are based on a percentage of funds recaptured. Due to minimal amounts identified during previous years, proposed vendors declined to accept new contracts to perform recapture audits in FY 2015.

Note 2: DNDO and TSA are cross-serviced by the USCG.

Note 3: MGMT, NPPD, OHA, S&T, and USCIS are cross-serviced by ICE.

Note 4: Overpayments were identified through high dollar overpayment reviews, contract closeout processes or self-reported by vendors.

IPERIA Table 5: Disposition of Funds Recaptured Through Payment Recapture Audit Programs

($ in millions)

Component	Amount Recaptured	Type of Payment (contract, grant, benefit, loan, or other)	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury
DHS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
DHS Totals	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

IPERIA Table 6: Aging of Outstanding Overpayments Identified in the Payment Recapture Audits

($ in millions)

Component	Type of Payment (contract, grant, benefit, loan, or other)	Amount Outstanding (0 6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount determined to not be collectible
DHS	N/A	N/A	N/A	N/A	N/A
DHS Totals	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

XI. Additional Comments

No additional comments.

XII. Agency Reduction of Improper Payments with the Do Not Pay Initiative

IPERIA Table 7: Results of the Do Not Pay Initiative to Preventing Improper Payments

($ in millions)

Types of Databases	Number (#) of payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments	Number (#) of payments stopped[2]	Dollars ($) of payments stopped[2]	Number (#) of potential improper payments reviewed and determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the Do Not Pay databases[1,3]	3,380,000	$25,244.74	0	$0.00	0.0002	$3.33
Reviews with databases not listed in IPERIA as Do Not Pay databases	0	$0.00	0	$0.00	0	$0.00

Note 1: Data currently based on October 1, 2015 through August 31, 2016. Currently, Treasury's Do Not Pay Reports are generated 2 months post-payment. The latest information available from Treasury presented above.

Note 2: Payments stopped is currently not applicable since the Do Not Pay matching and adjudication process is based on post payment results.

Note 3: IPERIA databases used for payment screening include the Death Master File (DMF) and the System for Award Management.

The Do Not Pay (DNP) Initiative is a government-wide initiative mandated by OMB Memorandum M-12-11 dated April 12, 2012, Reducing Improper Payments through the "Do Not Pay List," and IPERIA to match payments against DNP databases, prior to any payment of a grant or contract award. The Treasury Department performs post-payment matches on DHS disbursements using the General Service Administration's System for Awards Management and Social Security Administration's Death Master File (DMF) to identify improper payments. Treasury also performs post-payment matches using System for Award Management (SAM), Debt Check, Credit Alert Interactive Voice Response System, List of Excluded Individuals/Entities, and the Prisoner Update Processing System.

The Department continues its efforts to prevent and detect improper payments via the DNP Business Center portal by implementing the screening of payments through the Treasury Do Not Pay Portal and, as appropriate, screen payments via the DNP databases directly. Specifically, OCPO ensures that its contracting staff complies with Federal Acquisition Regulation (FAR), applicable areas of the DHS Homeland Security Acquisition Regulation (HSAR) and Homeland Security Acquisition Manual (HSAM) through its internal control processes and procedures. OCPO supplements the DHS HSAR and HSAM through the issuance of internal operating procedures for the review and approval of specific pre-award, award, and post-award documentation to ensure that acquisition staff checks data in SAM and FAPIIS. DHS and its finance centers' program managers work with Treasury to leverage the Portal's capabilities including analyzing current end-to-end payment processes and controls, and engaging with Treasury to ensure additional DNP databases are utilized effectively. Accordingly, DHS complies with the DNP initiative through its internal control and oversight practices and review procedures. In FY 2016, DHS conducted reviews on over 3.38 million payments, totaling over $25 billion dollars in disbursements under DNP. There were 135 payment matches with the DMF and 338 matches with the System for Award Management. Conclusive matches listed from the DMF were promptly made inactive in the Procurement and Accounting system, where applicable. In other situations it was still proper to pay the vendor even though they were flagged. For example, if a vendor registration was listed as inactive in SAM, they were contacted to update their registration prior to issuing payment. Routine monitoring enabled the Department to take immediate corrective action regarding DNP matches.

Freeze the Footprint (Reduce the Footprint)

On May 11, 2012, OMB issued Memorandum M-12-12, *Promoting Efficient Spending to Support Agency Operations* and introduced a "Freeze the Footprint" (FtF) policy in Section 3 of M-12-12. FtF required all civilian Executive Branch agencies to maintain a static balance in their directly leased, owned, General Services Administration (GSA) assigned building's inventory of office and warehouse space as compared to a specific baseline. The FtF mandate established the FY 2012 office and warehouse real property inventory as the baseline. The Department, in collaboration with GSA, agreed upon an FY 2012 office and warehouse FtF baseline of 48.4 million square feet (SF). Additional guidance was provided in OMB's Management Procedures Memorandum No. 2013-02, *Implementation of OMB Memorandum M-12-12 Section 3: Freeze the Footprint,* dated March 14, 2013. The memorandum directed agencies to "not increase the size of domestic real estate inventory, measured in square footage, for space predominately used for offices and warehouses."

On March 25, 2015, OMB issued Management Procedures Memorandum No. 2015-01, *Implementation of OMB Memorandum M-12-12 Section 3: Reduce the Footprint*, which superseded OMB Management Procedures Memorandum No. 2013-02, *Implementation of OMB Memorandum M-12-12 Section 3: Freeze the Footprint,* and noted that agencies must move aggressively to dispose of excess property and shall not increase the size of civilian real estate property, without offset, through consolidation, co-location, or disposal of space.

The policy also required agencies to submit a five-year Real Property Efficiency Plan annually to GSA and OMB. Consequently, the Department published the final FtF report in the FY 2015 AFR. Memorandum No. 2015-01 designated FY 2015 as the base year for the new "Reduce the Footprint" (RtF) measurement.

During the first quarter of FY 2016, the Department collaborated with GSA to review and reclassify many of the Department's mission assets that were classified as office and warehouse under the FtF policy. Due to the removal of a large number of assets, such as land ports of entry and border patrol stations, from the RtF baseline, the FY 2015 RtF baseline is 31.1 million square feet SF compared with the initial FY 2012 FtF baseline of 48.4 million SF.

The following chart illustrates the Department's total RtF baseline and the Department's planned reduction targets for FY 2017 to FY 2021.

Table 4: Reduce the Footprint Baseline Comparison (in square feet)

	FY 2015 RtF Baseline	FY 2017[1]	FY 2018	FY 2019	FY 2020	FY 2021	Net Reduction
Total	31,135,962	(36,149)	(596,602)	(369,944)	(717,397)	(199,721)	(1,919,813)

[1] Fiscal years covered, FY 2017 – FY 2021, determined by OMB Management Procedures Memorandum No. 2015-01, Implementation of OMB Memorandum M-12-12 Section 3: Reduce the Footprint

Table 5: Reporting of Operations and Maintenance Costs – Owned and Direct Lease Buildings

($ in millions)

	FY 2015 Actual Costs	FY 2016 Projected Costs	Projected Change in Costs
Operations and Maintenance Costs	$85	$84	-1

Between the end of FY 2015 and the end of FY 2016, the Department projects total cost to decrease as we work toward our target square footage reductions under RtF.

Civil Monetary Penalty Adjustment for Inflation

The *Federal Civil Penalties Inflation Adjustment Act of 1990*, as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect.

The following represents the Department's civil monetary penalties, all of which were last updated via regulation in 2016. Additional information about these penalties and the latest adjustment is available in the Federal Register, Volume 81, No. 127.

Table 6: Civil Monetary Penalties

Penalty	Authority	Year Enacted	Adjusted New Penalty
CBP			
Non-compliance with arrival and departure manifest requirements for passengers, crew members, or occupants transported on commercial vessels or aircraft arriving to or departing from the United States	8 USC 1221(g); USC Section 231(g); 8 CFR 280.53(c)(1)	2002	$1,312
Non-compliance with landing requirements at designated ports of entry for aircraft transporting aliens	8 USC 1224; USC Section 234; 8 CFR 280.53(c)(2)	1990	$3,563
Failure to depart voluntarily	8 USC 1229c(d); USC Section 240B(d); 8 CFR 280.53(c)(3)	1996	Minimum $1,502 Maximum $7,512
Violations of removal orders relating to aliens transported on vessels or aircraft under section 241(d) of the INA, or for costs associated with removal under section 241(e) of the INA	8 USC 1253(c)(1)(A); USC Section 243(c)(1)(A); 8 CFR 280.53(c)(4)	1996	$3,005
Failure to remove alien stowaways under section 241(d)(2) of the INA	8 USC 1253(c)(1)(B); USC Section 243(c)(1)(B); 8 CFR 280.53(c)(4)	1996	$7,512
Failure to report an illegal landing or desertion of alien crewmen, and for each alien not reported on arrival or departure manifest or lists required in accordance with section 251 of the USC (for each alien)	8 USC 1281(d); USC Section 251(d); 8 CFR 280.53(c)(5)	1990	$356
Use of alien crewmen for longshore work in violation of section 251(d) of the INA	8 USC 1281(d); USC Section 251(d); 8 CFR 280.53(c)(5)	1990	$8,908
Failure to control, detain, or remove alien crewmen.	8 USC 1284(a); USC Section 254(a); 8 CFR 280.53(c)(6)	1990	Minimum $891 Maximum $5,345
Employment on passenger vessels of aliens afflicted with certain disabilities	8 USC 1285; USC Section 255; 8 CFR 280.53(c)(7)	1990	$1,782
Discharge of alien crewmen	8 USC 1286; USC Section 256; 8 CFR 280.53(c)(8)	1990	Minimum $2,672 Maximum $5,345

Penalty	Authority	Year Enacted	Adjusted New Penalty
Bringing into the United States alien crewmen with intent to evade immigration laws	8 USC 1287; USC Section 257; 8 CFR 280.53(c)(9)	1990	$17,816
Failure to prevent the unauthorized landing of aliens	8 USC § 1321(a); USC Section 271(a); 8 CFR 280.53(c)(10)	1990	$5,345
Bringing to the United States aliens subject to denial of admission on a health-related ground	8 USC § 1322(a); USC Section 272(a); 8 CFR 280.53(c)(11)	1990	$5,345
Bringing to the United States aliens without required documentation	8 USC § 1323(b); USC Section 273(b); 8 CFR 280.53(c)(12)	1990	$5,345
Failure to depart	8 USC 1324(d); USC Section 274D; 8 CFR 280.53(c)(13)	1996	$751
Improper entry	8 USC § 1325(b)	1996	Minimum $75
	USC Section 275(b); 8 CFR 280.53(c)(14)		Maximum $376
ICE			
Violation of Immigration and Naturalization Act (INA) sections 274C(a)(1)–(a)(4)	8 CFR 270.3(b)(1)(ii)(A)	1990	Minimum $445
(First offense)			Maximum $3,563
Violation of Immigration and Naturalization Act (INA) sections 274C(a)(5)–(a)(6)	8 CFR 270.3(b)(1)(ii)(B)	1996	Minimum $376
(First offense)			Maximum $3,005
Violation of Immigration and Naturalization Act (INA) sections 274C(a)(1)–(a)(4)	8 CFR 270.3(b)(1)(ii)(C)	1990	Minimum $3,563
(Subsequent offenses)			Maximum $8,908
Violation of Immigration and Naturalization Act (INA) sections 274C(a)(5)–(a)(6)	8 CFR 270.3(b)(1)(ii)(D)	1996	Minimum $3,005
(Subsequent offenses)			Maximum $7,512
Violation/prohibition of indemnity bonds	8 CFR 274a.8(b)	1986	$2,156
Knowingly hiring, recruiting, referral, or retention of unauthorized aliens (per unauthorized alien)	8 CFR 274a.10(b)(1)(ii)(A)	1986	Minimum $539
(First offense)			Maximum $4,313
Knowingly hiring, recruiting, referral, or retention of unauthorized aliens (per unauthorized alien)	8 CFR 274a.10(b)(1)(ii)(B)	1986	Minimum $4,313
(Second offense)			Maximum $10,781
Knowingly hiring, recruiting, referral, or retention of unauthorized aliens (per unauthorized alien)	8 CFR 274a.10(b)(1)(ii)(C)	1986	Minimum $6,469
(Subsequent offenses)			Maximum $21,563

Penalty	Authority	Year Enacted	Adjusted New Penalty
I–9 paperwork violations	8 CFR 274a.10(b)(2)	1986	Minimum $216 Maximum $2,156
NPPD			
Non-compliance with CFATS regulations	6 USC 624(b)(1); 6 CFR 27.300(b)(3)	2002	$32,796
TSA			
Certain aviation related violations by an individual or small business concern (49 CFR Ch. XII § 1503.401(c)(1))	49 USC 46301(a)(1), (4)	2003	$12,856 (up to a total of $64,281 per civil penalty action)
Certain aviation related violations by any other person not operating an aircraft for the transportation of passengers or property for compensation (49 CFR Ch. XII § 1503.401(c)(2))	49 USC 46301(a)(1), (4)	2003	$12,856 (up to a total of $514,244 per civil penalty action)
Certain aviation related violations by a person operating an aircraft for the transportation of passengers or property for compensation (49 CFR Ch. XII § 1503.401(c)(3))	49 USC 46301(a)(1), (4)	2003	$32,140 (up to a total of $514,244 per civil penalty action)
Violation of any other provision of title 49 USC or of 46 USC ch. 701, or a regulation prescribed, or order issued under thereunder (49 CFR Ch. XII § 1503.401(b))	49 USC 114(v)(2)	2009	$11,002 (up to a total of $55,010 for individuals and small businesses, $440,080 for other persons)
USCG			
Saving Life and Property	14 USC 88(c)	2014	$10,017
Saving Life and Property (Intentional Interference with Broadcast)	14 USC 88(e)	2012	$1,028
Confidentiality of Medical Quality Assurance Records (first offense)	14 USC 645(i)	1992	$5,032
Confidentiality of Medical Quality Assurance Records (subsequent offenses)	14 USC 645(i)	1992	$33,546
Aquatic Nuisance Species in Waters of the United States	16 USC 4711(g)(1)	1996	$37,561
Obstruction of Revenue Officers by Masters of Vessels	19 USC 70	1935	$7,500
Obstruction of Revenue Officers by Masters of Vessels—Minimum Penalty	19 USC 70	1935	$1,750
Failure to Stop Vessel When Directed; Master, Owner, Operator or Person in Charge	19 USC 1581(d)	1930	$5,000
Failure to Stop Vessel When Directed; Master, Owner, Operator or Person in Charge - Minimum Penalty	19 USC 1581(d)	1930	$1,000
Anchorage Ground/Harbor Regulations General	33 USC 471	2010	$10,875
Anchorage Ground/Harbor Regulations St. Mary's River	33 USC 474	1946	$750

Penalty	Authority	Year Enacted	Adjusted New Penalty
Bridges/Failure to Comply with Regulations	33 USC 495(b)	2008	$27,455
Bridges/Drawbridges	33 USC 499(c)	2008	$27,455
Bridges/Failure to Alter Bridge Obstructing Navigation	33 USC 502(c)	2008	$27,455
Bridges/Maintenance and Operation	33 USC 533(b)	2008	$27,455
Bridge to Bridge Communication; Master, Person in Charge or Pilot	33 USC 1208(a)	1971	$2,000
Bridge to Bridge Communication; Vessel	33 USC 1208(b)	1971	$2,000
PWSA Regulations	33 USC 1232(a)	1978	$88,613
Vessel Navigation: Regattas or Marine Parades; Unlicensed Person in Charge	33 USC 1236(b)	1990	$8,908
Vessel Navigation: Regattas or Marine Parades; Owner Onboard Vessel	33 USC 1236(c)	1990	$8,908
Vessel Navigation: Regattas or Marine Parades; Other Persons	33 USC 1236(d)	1990	$4,454
Oil/Hazardous Substances: Discharges (Class I per violation)	33 USC 1321(b)(6)(B)(i)	1990	$17,816
Oil/Hazardous Substances: Discharges (Class I total under paragraph)	33 USC 1321(b)(6)(B)(i)	1990	$44,539
Oil/Hazardous Substances: Discharges (Class II per day of violation)	33 USC 1321(b)(6)(B)(ii)	1990	$17,816
Oil/Hazardous Substances: Discharges (Class II total under paragraph)	33 USC 1321(b)(6)(B)(ii)	1990	$222,695
Oil/Hazardous Substances: Discharges (per day of violation) Judicial Assessment	33 USC 1321(b)(7)(A)	1990	$44,539
Oil/Hazardous Substances: Discharges (per barrel of oil or unit discharged) Judicial Assessment	33 USC 1321(b)(7)(A)	1990	$1,782
Oil/Hazardous Substances: Failure to Carry Out Removal/Comply With Order (Judicial Assessment)	33 USC 1321(b)(7)(B)	1990	$44,539
Oil/Hazardous Substances: Failure to Comply with Regulation Issued Under 1321(j) (Judicial Assessment)	33 USC 1321(b)(7)(C)	1990	$44,539
Oil/Hazardous Substances: Discharges, Gross Negligence (per barrel of oil or unit discharged) Judicial Assessment	33 USC 1321(b)(7)(D)	1990	$5,345
Oil/Hazardous Substances: Discharges, Gross Negligence—Minimum Penalty (Judicial Assessment)	33 USC 1321(b)(7)(D)	1990	$178,156
Marine Sanitation Devices; Operating	33 USC 1322(j)	1972	$7,500
Marine Sanitation Devices; Sale or Manufacture	33 USC 1322(j)	1972	$20,000
International Navigation Rules; Operator	33 USC 1608(a)	1980	$14,023
International Navigation Rules; Vessel	33 USC 1608(b)	1980	$14,023
Pollution from Ships; General	33 USC 1908(b)(1)	1980	$70,117
Pollution from Ships; False Statement	33 USC 1908(b)(1)	1980	$14,023
Inland Navigation Rules; Operator	33 USC 2072(a)	1980	$14,023
Inland Navigation Rules; Vessel	33 USC 2072(b)	1980	$14,023
Shore Protection; General	33 USC 2609(a)	1988	$49,467
Shore Protection; Operating Without Permit	33 USC 2609(b)	1988	$19,787
Oil Pollution Liability and Compensation	33 USC 2716a(a)	1990	$44,539
Clean Hulls; Civil Enforcement	33 USC 3852(a)(1)(A)	2010	$40,779

Penalty	Authority	Year Enacted	Adjusted New Penalty
Clean Hulls; False statements	33 USC 3852(a)(1)(A)	2010	$54,373
Clean Hulls; Recreational Vessel	33 USC3852(c)	2010	$5,437
Hazardous Substances, Releases Liability, Compensation (Class I)	42 USC 9609(a)	1986	$53,907
Hazardous Substances, Releases Liability, Compensation (Class II)	42 USC 9609(b)	1986	$53,907
Hazardous Substances, Releases Liability, Compensation (Class II subsequent offense)	42 USC 9609(b)	1986	$161,721
Hazardous Substances, Releases, Liability, Compensation (Judicial Assessment)	42 USC 9609(c)	1986	$53,907
Hazardous Substances, Releases, Liability, Compensation (Judicial Assessment subsequent offense)	42 USC 9609(c)	1986	$161,721
Safe Containers for International Cargo	46 USC 80509(a)	2006	$5,893
Suspension of Passenger Service	46 USC 70305(c)	2006	$58,929
Vessel Inspection or Examination Fees	46 USC 2110(e)	1990	$8,908
Alcohol and Dangerous Drug Testing	46 USC 2115	1998	$7,251
Negligent Operations: Recreational Vessels	46 USC 2302(a)	2002	$6,559
Negligent Operations: Other Vessels	46 USC 2302(a)	2002	$32,796
Operating a Vessel While Under the Influence of Alcohol or a Dangerous Drug	46 USC 2302(c)(1)	1998	$7,251
Vessel Reporting Requirements: Owner, Charterer, Managing Operator, or Agent	46 USC 2306(a)(4)	1984	$11,293
Vessel Reporting Requirements: Master	46 USC 2306(b)(2)	1984	$2,259
Immersion Suits	46 USC 3102(c)(1)	1984	$11,293
Inspection Permit	46 USC 3302(i)(5)	1983	$2,355
Vessel Inspection; General	46 USC 3318(a)	1984	$11,293
Vessel Inspection; Nautical School Vessel	46 USC 3318(g)	1984	$11,293
Vessel Inspection; Failure to Give Notice IAW 3304(b)	46 USC 3318(h)	1984	$2,259
Vessel Inspection; Failure to Give Notice IAW 3309 (c)	46 USC 3318(i)	1984	$2,259
Vessel Inspection; Vessel ≥ 1600 Gross Tons	46 USC 3318(j)(1)	1984	$22,587
Vessel Inspection; Vessel <1600 Gross Tons	46 USC 3318(j)(1)	1984	$4,517
Vessel Inspection; Failure to Comply with 3311(b)	46 USC 3318(k)	1984	$22,587
Vessel Inspection; Violation of 3318(b)-3318(f)	46 USC 3318(l)	1984	$11,293
List/count of Passengers	46 USC 3502(e)	1983	$235
Notification to Passengers	46 USC 3504(c)	1983	$23,548
Notification to Passengers; Sale of Tickets	46 USC 3504(c)	1983	$1,177
Copies of Laws on Passenger Vessels; Master	46 USC 3506	1983	$471
Liquid Bulk/Dangerous Cargo	46 USC 3718(a)(1)	1983	$58,871
Uninspected Vessels	46 USC 4106	1988	$9,893
Recreational Vessels (maximum for related series of violations)	46 USC 4311(b)(1)	2004	$311,470
Recreational Vessels; Violation of 4307(a)	46 USC 4311(b)(1)	2004	$6,229
Recreational Vessels	46 USC 4311(c)	1983	$2,355
Uninspected Commercial Fishing Industry Vessels	46 USC 4507	1988	$9,893
Abandonment of Barges	46 USC 4703	1992	$1,677
Load Lines	46 USC 5116(a)	1986	$10,781

Penalty	Authority	Year Enacted	Adjusted New Penalty
Load Lines; Violation of 5112(a)	46 USC 5116(b)	1986	$21,563
Load Lines; Violation of 5112(b)	46 USC 5116(c)	1986	$10,781
Reporting Marine Casualties	46 USC 6103(a)	1996	$37,561
Reporting Marine Casualties; Violation of 6104	46 USC 6103(b)	1988	$9,893
Manning of Inspected Vessels; Failure to Report Deficiency in Vessel Complement	46 USC 8101(e)	1990	$1,782
Manning of Inspected Vessels	46 USC 8101(f)	1990	$17,816
Manning of Inspected Vessels; Employing or Serving in Capacity not Licensed by USCG	46 USC 8101(g)	1990	$17,816
Manning of Inspected Vessels; Freight Vessel <100 GT, Small Passenger Vessel, or Sailing School Vessel	46 USC 8101(h)	1983	$2,355
Watchmen on Passenger Vessels	46 USC 8102(a)	1983	$2,355
Citizenship Requirements	46 USC 8103(f)	1983	$1,177
Watches on Vessels; Violation of 8104(a) or (b)	46 USC 8104(i)	1990	$17,816
Watches on Vessels; Violation of 8104(c), (d), (e), or (h)	46 USC 8104(j)	1990	$17,816
Staff Department on Vessels	46 USC 8302(e)	1983	$235
Officer's Competency Certificates	46 USC 8304(d)	1983	$235
Coastwise Pilotage; Owner, Charterer, Managing Operator, Agent, Master or Individual in Charge	46 USC 8502(e)	1990	$17,816
Coastwise Pilotage; Individual	46 USC 8502(f)	1990	$17,816
Federal Pilots	46 USC 8503	1984	$56,467
Merchant Mariners Documents	46 USC 8701(d)	1983	$1,177
Crew Requirements	46 USC 8702(e)	1990	$17,816
Small Vessel Manning	46 USC 8906	1996	$37,561
Pilotage: Great Lakes; Owner, Charterer, Managing Operator, Agent, Master or Individual in Charge	46 USC 9308(a)	1990	$17,816
Pilotage: Great Lakes; Individual	46 USC 9308(b)	1990	$17,816
Pilotage: Great Lakes; Violation of 9303	46 USC 9308(c)	1990	$17,816
Failure to Report Sexual Offense	46 USC 10104(b)	1989	$9,468
Pay Advances to Seamen	46 USC 10314(a)(2)	1983	$1,177
Pay Advances to Seamen; Remuneration for Employment	46 USC 10314(b)	1983	$1,177
Allotment to Seamen	46 USC 10315(c)	1983	$1,177
Seamen Protection; General	46 USC 10321	1993	$8,162
Coastwise Voyages: Advances	46 USC 10505(a)(2)	1993	$8,162
Coastwise Voyages: Advances; Remuneration for Employment	46 USC 10505(b)	1993	$8,162
Coastwise Voyages: Seamen Protection; General	46 USC 10508(b)	1993	$8,162
Effects of Deceased Seamen	46 USC 10711	1983	$471
Complaints of Unfitness	46 USC 10902(a)(2)	1983	$1,177
Proceedings on Examination of Vessel	46 USC 10903(d)	1983	$235
Permission to Make Complaint	46 USC 10907(b)	1983	$1,177
Accommodations for Seamen	46 USC 11101(f)	1983	$1,177
Medicine Chests on Vessels	46 USC 11102(b)	1983	$1,177
Destitute Seamen	46 USC 11104(b)	1983	$235
Wages on Discharge	46 USC 11105(c)	1983	$1,177

Penalty	Authority	Year Enacted	Adjusted New Penalty
Log Books; Master Failing to Maintain	46 USC 11303(a)	1983	$471
Log Books; Master Failing to Make Entry	46 USC 11303(b)	1983	$471
Log Books; Late Entry	46 USC 11303(c)	1983	$353
Carrying of Sheath Knives	46 USC 11506	1983	$118
Documentation of Vessels	46 USC 12151(a)(1)	2012	$15,423
Documentation of Vessels; Activities involving mobile offshore drilling units	46 USC 12151(a)(2)	2012	$25,705
Engaging in Fishing After Falsifying Eligibility (fine per day)	46 USC 12151(c)	2006	$117,858
Numbering of Undocumented Vessel; Willful violation	46 USC 12309(a)	1983	$11,774
Numbering of Undocumented Vessels	46 USC 12309(b)	1983	$2,355
Vessel Identification System	46 USC 12507(b)	1988	$19,787
Measurement of Vessels	46 USC 14701	1986	$43,126
Measurement; False Statements	46 USC 14702	1986	$43,126
Commercial Instruments and Maritime Liens	46 USC 31309	1988	$19,787
Commercial Instruments and Maritime Liens; Mortgagor	46 USC 31330(a)(2)	1988	$19,787
Commercial Instruments and Maritime Liens; Violation of 31329	46 USC 31330(b)(2)	1988	$49,467
Port Security	46 USC 70119(a)	2002	$32,796
Port Security; Continuing Violations	46 USC 70119(b)	2006	$58,929
Maritime Drug Law Enforcement; Penalties	46 USC 70506(c)	2010	$5,437
Hazardous Materials: Related to Vessels	49 USC 5123(a)(1)	2012	$77,114
Hazardous Materials: Related to Vessels; Penalty from Fatalities, Serious Injuries/ Illness or substantial Damage to Property	49 USC 5123(a)(2)	2012	$179,933
Hazardous Materials: Related to Vessels; Training	49 USC 5123(a)(3)	2012	$463

Other Key Regulatory Requirements

Prompt Payment Act

The *Prompt Payment Act* requires federal agencies to make timely payments (within 30 days of receipt of invoice) to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts only when they are economically justified. The Department's Components submit Prompt Payment data as part of data gathered for the OMB CFO Council's Metric Tracking System (MTS). Periodic reviews are conducted by the DHS Components to identify potential problems. Interest penalties as a percentage of the dollar amount of invoices subject to the Prompt Payment Act have been measured between 0.002 percent and 0.012 percent for the period of October 2015 through September 2016, with an annual average of 0.005 percent. (Note: MTS statistics are reported with at least a six week lag).

Debt Collection Improvement Act

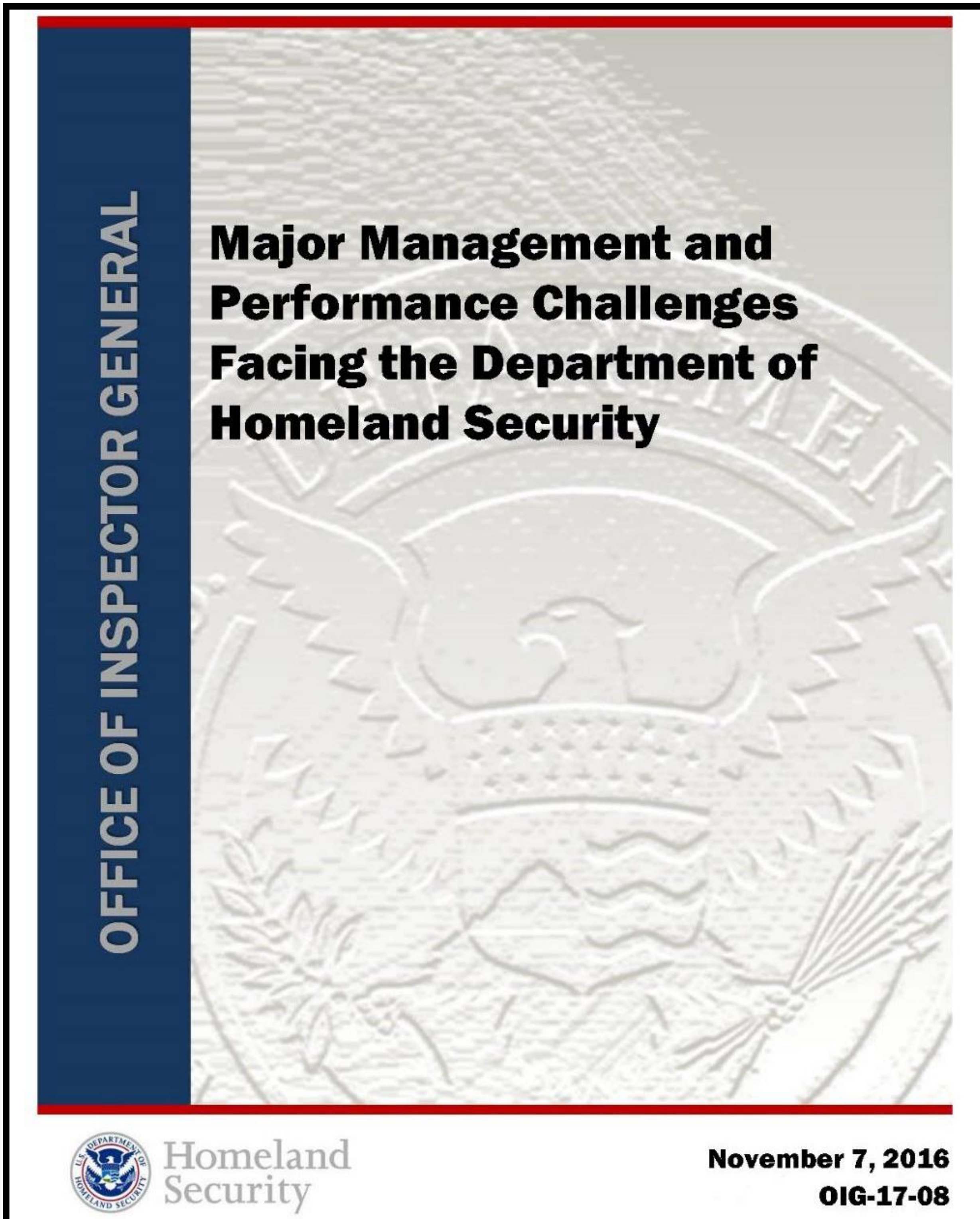
In compliance with the *Debt Collection Improvement Act of 1996* (DCIA), the Department manages its debt collection activities under the DHS DCIA regulation. The regulation is implemented under the Department's comprehensive debt collection policies that provide guidance to the Components on the administrative collection of debt; referring non-taxable debt; writing off non-taxable debt; reporting debts to consumer reporting agencies; assessing interest, penalties and administrative costs; and reporting receivables to the Treasury. The *Digital Accountability and Transparency Act of 2014* was passed in May 2014 and updated DCIA requirements for referring non-taxable debt.

Biennial User Charges Review

The *Chief Financial Officers Act of 1990* and OMB Circular A-25 Revised, *User Charges*, requires each agency CFO to review, on a biennial basis, the fees, royalties, rents, and other charges imposed by the agency for services and items of value provided to specific recipients, beyond those received by the general public. The purpose of this review is 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. Based on our review, we identified adjustments for fees to achieve full-cost recovery.

In FY 2016, the Department took steps to strengthen oversight of our user fees programs through the establishment of the DHS Fee Governance Council. The Council was created to establish a governance and a centralized oversight structure for fees programs across the Department, including establishing a policy framework for how fees are established, updated, or changed at DHS, the schedule and output requirements of regular fee reviews conducted at DHS, how fees are reported in the budget, and other related oversight policies.

Office of Inspector General's Report on Major Management and Performance Challenges Facing the Department of Homeland Security



OFFICE OF INSPECTOR GENERAL

Major Management and Performance Challenges Facing the Department of Homeland Security

Homeland Security

November 7, 2016

OIG-17-08

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

November 7, 2016

MEMORANDUM FOR: The Honorable Jeh C. Johnson
Secretary

FROM: John Roth
Inspector General

SUBJECT: *Major Management and Performance Challenges Facing the Department of Homeland Security*

Attached for your information is our annual report, *Major Management and Performance Challenges Facing the Department of Homeland Security*. We analyzed and incorporated the Department's technical comments as appropriate.

Although significant progress has been made over the last 3 years, the Department continues to face long-standing, persistent challenges overseeing and managing its homeland security mission. These challenges affect every aspect of the mission, from preventing terrorism and protecting our borders and transportation systems to enforcing our immigration laws, ensuring disaster resiliency, and securing cyberspace. The Department is continually tested to work as one entity to achieve its complex mission.

To better inform and assist the Department, this year we are presenting a broader picture of management challenges by highlighting those we have repeatedly identified over several years. We remain concerned about the systemic nature of these challenges, some of which span multiple Administrations and changes in Department leadership. Overcoming these challenges demands unified action; a motivated and engaged workforce; rigorous, sustained management of acquisitions and grants; and secure information technology (IT) systems that protect sensitive information, all of which must be based on the management fundamentals of data collection, cost-benefit analysis, and performance measurement.

Unity of Effort

As in the past, DHS' primary challenge moving forward is transitioning from an organization of 22 semi-independent components, each conducting its affairs without regard to, and often without knowledge of, other DHS components' programs and operations, to a more cohesive entity focused on the central mission of protecting the homeland. A lack of coordination and unity occurs in all aspects of DHS' programs — planning, programing, budgeting, and execution — and leads to waste and inefficiency.

Our previous audit and inspection reports are replete with examples of the consequences of failing to act as a single entity. Whether it is decisions on maintaining similar helicopters used by different components, harmonizing aviation maintenance management software, managing a vast vehicle fleet, coordinating protection of the maritime border, aligning immigration policies and data collection, sharing information, communicating on a common radio channel, or combatting tunnels on the Southwest border, DHS' challenges in this area are well documented. We are not alone in pointing out that the promise of a unified Department — the purpose of its creation — has not yet been realized. Congress, the Government Accountability Office, and interested third-party observers have all noted the challenge.

Progress has been made both in tone and substance. In the last 3 years, DHS leadership has taken steps to forge multiple components into a single organization. New policies and directives have been created to ensure cohesive budgeting planning and execution, including ensuring a joint requirements process. The Department also has a process to identify and analyze its mission responsibilities and capabilities, with an eye toward understanding how components fit together and how each adds value to the enterprise. A new method for coordinating operations, the Southern Border and Approaches Campaign, was created to try to reduce the silos and redundancy.

This progress has been the result of the force of will of a small team within the Department's leadership. Future leaders may not have the focus, capability, or desire to engage in the often coercive task of culture change. Unity of effort needs to be more than a slogan and an initiative. Ensuring continued progress requires the constant attention of senior leaders. Absent structural changes to ensure streamlined oversight, communication, responsibility, and accountability — changes that must be enshrined in law — the risk of DHS backsliding on the progress made to date is very real.

Employee Morale and Engagement

DHS is the third-largest Federal agency and its employees serve a variety of missions vital to the security of our nation. To achieve these missions, DHS must employ and retain people who are well prepared for their work and appropriately supported by their managers. Since its inception, however, DHS has suffered poor employee morale and a dysfunctional work environment.

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These issues are likely connected to challenges we repeatedly identify — the Department's failure to develop, implement, and widely disseminate clear and consistent guidance; a lack of communication between staff and management; and insufficient training. DHS has also had problems determining how to assign staff appropriately and hiring and retaining enough people to handle a reasonable workload while maintaining a work-life balance. At times, DHS employees' jobs are made more difficult by the lack of needed support, such as useful IT systems and up-to-date technology.

The Department spends about $30 billion a year (40 percent of its budget) on employee salaries and benefits. Therefore, it is imperative that DHS leadership take all steps necessary to strengthen esprit de corps. The Partnership for Public Service has made recommendations to improve employee morale and engagement:

- Holding executives accountable for improving employee morale
- Partnering with employee groups to improve working relationships
- Designing and executing short-term activities to act on employee feedback and contribute to a potential long-term culture change
- Developing and committing to shared organizational values and aligning agency activities and employee interactions to those values
- Increasing transparency and connecting employees to the mission, the Department, and their co-workers
- Investing in and developing employees through leadership and technical training and by providing mentoring

The Secretary has made improving employee morale one of his top priorities and some progress has been made. The results of the 2016 Federal Employee Viewpoint Survey showed that, after 6 years of decline, employee engagement went up 3 percentage points — from 53 percent in 2015 to 56 percent this year. However, the Department continues to rank last among large agencies, which means leadership must sustain its focus on addressing this challenge.

Acquisition Management

Acquisition management, which is critical to fulfilling all DHS missions, is inherently complex, high risk, and challenging. Since its inception in 2003, the Department has spent tens of billions of dollars annually on a broad range of assets and services — from ships, aircraft, surveillance towers, and nuclear detection equipment to IT systems for financial management and human resources. DHS' yearly spending on contractual services and supplies, along with acquisition of assets, exceeds $25 billion. There continue to be DHS major acquisition programs that cost more than expected, take longer to deploy than

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planned, or deliver less capability than promised. Although DHS has made much progress, it has not yet coalesced into one entity working toward a common goal. The Department still lacks uniform policies and procedures, a dedicated core of acquisition professionals, as well as component commitment to adhere to departmental acquisition guidance, adequately define requirements, develop performance measures, and dedicate sufficient resources to contract oversight.

For example, U.S. Citizenship and Immigration Services (USCIS) faces continuing challenges in its efforts to automate immigration benefits. After 11 years, USCIS has made little progress in transforming from paper-based processes to automated immigration benefits processing. Past automation attempts have been hampered by ineffective planning, multiple changes in direction, and inconsistent stakeholder involvement. USCIS deployed the Electronic Immigration System in May 2012, but to date customers can apply online for only 2 of about 90 types of immigration benefits and services. USCIS now estimates that it will take 3 more years—more than 4 years longer than estimated—and an additional $1 billion to automate all benefit types as expected.

DHS has instituted major reforms to the acquisition process and has exerted significant leadership to gain control of an unruly and wasteful process. However, we worry that these reforms, if not continuously supported and enforced, could be undone. As DHS continues to build its acquisition management capabilities, it will need stronger departmental oversight and authority, increased commitment by the Department and components, as well as skilled personnel to effect real and lasting change.

Grants Management

The Federal Emergency Management Agency (FEMA) manages the Federal response to, and recovery from, major domestic disasters and emergencies of all types. In doing so, FEMA coordinates programs to improve the effectiveness of the whole community and leverages its resources to prevent, protect against, mitigate, respond to, and recover from major disasters, terrorist attacks, and other emergencies. In this role, FEMA awards an average of about $10 billion each year in disaster assistance grants and preparedness grants.

Based on the results of OIG Emergency Management Oversight teams deployed to disaster sites in nearly a dozen states, we determined that FEMA generally responded effectively to disasters. Overall, FEMA responded proactively and overcame a variety of challenges while coordinating activities with other Federal agencies and state and local governments.

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However, our body of work over the past few years suggests that FEMA has not managed recovery from disasters well. Although FEMA provides grant management funding to grantees, FEMA has not held them accountable for managing subgrantees, and states and other grantees have not done well in guiding and managing subgrantees. This means the entire layer of oversight intended to monitor the billions of dollars awarded by FEMA in disaster assistance grants is ineffective, inefficient, and vulnerable to fraud, waste, and abuse. Of the $1.55 billion in disaster grant funds we audited last year, we found $457 million in questioned costs, such as duplicate payments, unsupported costs, improper procurement practices, and unauthorized expenditures. This equates to a 29 percent questioned-cost rate, which far exceeds industry norms, and it illustrates FEMA's continued failure to adequately manage grants.

We also saw examples of inadequate grant management in preparedness grants. In an overarching audit of OIG recommendations related to preparedness grants, we reported that FEMA had not adequately analyzed recurring recommendations to implement changes to improve its oversight of these grants. This occurred because FEMA did not clearly communicate internal roles and responsibilities and did not have policies and procedures to conduct substantive trend analyses of audit recommendations.

Although FEMA has been responsive to our recommendations for administrative actions and for putting unspent funds to better use, FEMA has not sufficiently held grant recipients financially accountable for improperly spending disaster relief funds. As of September 27, 2016, FEMA had taken sufficient action to close 130 of our 154 FY 2015 disaster grant audit report recommendations. However, the 24 recommendations that remained open contained 90 percent ($413 million) of the $457 million we recommended FEMA disallow that grant recipients spent improperly or could not support. Further, in FYs 2009 through 2014, FEMA allowed grant recipients to keep 91 percent of the contract costs we recommended for disallowance for noncompliance with Federal procurement regulations, such as those that require opportunities for disadvantaged firms (e.g., small, minority, and women) to bid on federally funded work.

Based on our recurring audit findings, it is critically important that FEMA officials examine regulations, policies, and procedures and assess the need for more robust changes throughout all grant programs. FEMA should refocus its efforts to identify systemic issues and develop solutions to address the cause and not just the symptoms. FEMA needs to improve its oversight of state grantees and proactively engage with states to improve management and guidance of subgrantees. Nurturing positive relationships that emphasize

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accountability for results and resource stewardship will set a clear tone for all stakeholders of FEMA grants.

Cybersecurity

Cybersecurity is a serious challenge, given the increasing number and sophistication of attacks against our Nation's critical infrastructures and information systems. In FY 2017, the Department requested $1.6 billion to safeguard its complex mix of interconnected networks, legacy systems, web-based applications, and contractor-owned or operated systems that process, store, and share unclassified and classified information. Failure to secure these assets increases the risk of unauthorized access, manipulation, and misuse of the data they contain. External threats such as hackers, cyber-terrorist groups, and denial of service attacks are of particular concern.

Our annual *Federal Information Security Modernization Act of 2014* (FISMA) reviews show incremental DHS progress in establishing an enterprise-wide information security program. However, the Department is challenged to provide central oversight to make sure all components secure their networks. Over time, we have documented significant vulnerabilities, including

- Ensuring personal identity verification card implementation data, pursuant to Homeland Security Presidential Directive 12, is implemented and reported;
- Performing required weakness remediation reviews;
- Ensuring each system has a documented authority to operate;
- Taking adequate action to address security deficiencies;
- Implementing all DHS baseline configuration settings;
- Continuously maintaining information security programs;
- Continuously monitoring Secret and Top Secret systems; and
- Discontinuing use of unsupported operating systems (e.g., Windows XP and Windows Server 2003).

Under FISMA, DHS is also responsible for administering implementation of Office of Management and Budget information security policies and practices Federal government-wide. In line with this responsibility, DHS implemented EINSTEIN 1 and 2 to provide an automated process for collecting security information and detecting the presence of malicious activity on Federal networks. DHS has yet to deploy EINSTEIN 3 Accelerated across all Federal Government networks to expand intrusion prevention capabilities to counteract emerging threats. As the Government Accountability Office reported in January 2016, only 5 of 23 agencies were receiving intrusion prevention services, but DHS was working to overcome policy and implementation challenges. Further,

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agencies had not taken all the technical steps needed to implement the system, such as ensuring that all network traffic is routed through EINSTEIN sensors. Within DHS, the National Protection and Programs Directorate has the overwhelming task of fulfilling the Department's national, non-law enforcement cyber security missions, as well as providing crisis management, incident response, and defense against cyber-attacks for Federal.gov networks.

We have identified inadequate protection of DHS components' sensitive systems and the data they contain. For example, due to inadequate controls, Secret Service employees were able to gain unauthorized access to the component's Master Central Index system containing Representative Chaffetz's personally identifiable information. DHS could better address insider threats by protecting against unauthorized removal of sensitive information via portable media devices and email, establishing processes for routine wireless vulnerability and security scans, and strengthening physical security controls to protect IT assets from possible theft, destruction, or malicious actions. More broadly, DHS components we audited could better ensure privacy of essential records, sensitive personally identifiable information, and intelligence information. Moreover, the Department could develop a strategic implementation plan, a training program, and an automated information sharing tool to enhance coordination among its components with cyber-related responsibilities.

Management Fundamentals

Although neither exciting nor publicly lauded, the basics of management are the lifeblood of informed decision making and successful mission performance. Management fundamentals include having accurate, complete information on operations and their cost; meaningful performance metrics on programs and goals; and appropriate internal controls. The Department has made strides in establishing its management fundamentals, including obtaining an unmodified opinion on its financial statements for the last 3 years. However, DHS still cannot obtain such an opinion on its internal controls over financial reporting. In plain terms, this means the Department can assemble reasonably accurate financial statements at the end of the fiscal year, but it has no assurance that its financial information is accurate and up-to-date throughout the year. DHS has also instituted many positive steps such as over-arching acquisition policies and other meaningful acquisition reforms, but the value of these steps is undermined by the lack of discipline in management fundamentals.

We have summarized the ongoing challenges the Department faces into three main categories, but caution that these challenges are both interrelated and cumulative:

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Collecting the Right Data

The Department does not prioritize collection of data in its program planning, does not always gather enough data, and does not validate the data it receives to ensure it is accurate and complete. The lack of reliable and complete data permeates through the entire Department and its components and is often accompanied by too little management oversight and weak internal controls. DHS leadership does not always assert its authority over the components to ensure it gets the data it needs when it needs it. As a result, DHS and the components often struggle making good decisions on acquisitions (what is needed and how much is needed) and correctly deploying resources (people, as well as acquired goods and services). Further, DHS does not have the data required to measure performance and use the feedback to adjust and improve programs and operations. We have identified numerous examples of this issue, including DHS' lack of accurate and complete inventory data for equipment, which hindered the provision of needed interoperable radio equipment, and incomplete inventory data on warehouse space, which led to wasted resources. In another example, neither the Department nor its components were collecting accurate data on the use of government vehicles and as a result could not accurately determine how many vehicles the components needed. Simply put, without the foundation of solid data, DHS cannot be certain it will achieve its mission and spend taxpayer dollars wisely and efficiently.

Collecting and Analyzing Cost Data

The Department, like most Federal Government agencies, does not put sufficient emphasis on collecting cost data for operations and programs. Successful businesses unfailingly track cost data because the cost of their operations or products directly impacts their bottom line revenue. Government does not have that bottom line drive for cost information; yet, all government programs rely on informed decision making to optimize performance. Without cost information, DHS is not prepared for reliable cost-benefit analysis of proposed program or policy changes or new initiatives. Because it does not fully understand the costs of its program choices, the Department is not equipped to analyze its risk decisions. The lack of information on program costs also limits basic investment decisions among competing programs. Our FY 2015 audit of U.S. Customs and Border Protection's (CBP) unmanned aircraft system program highlighted CBP's failure to capture complete cost data for the program. CBP did not include all the actual operating costs because some costs were paid from a different budget line item or program. We

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determined that CBP was dramatically underestimating the cost of the program, at the same time it was considering expanding the program. Program decisions based on inaccurate or incomplete cost analysis can lead to program failure, poor performance, or significant delays. Since we issued our audit report, DHS has made substantial progress towards developing a common flying hour program.

Performance Measurement

A famous business axiom states, "what's measured, improves," but DHS does not routinely establish meaningful performance measures for many of its ongoing initiatives and programs. Multiple audit and inspection reports identify deficiencies in or the absence of DHS performance measures. Our audits have identified costly programs that DHS has not measured for effectiveness. Therefore, we do not know whether the investment of taxpayer resources is a good one. For example:

- The Transportation Security Administration (TSA) has continued to invest in its Screening of Passengers by Observation Techniques program without valid performance metrics to evaluate whether the investment is yielding appropriate results. In fact, 3 years after our initial audit, we found that TSA still is unable to determine its effectiveness.
- CBP's Streamline, an initiative to criminally prosecute individuals who illegally enter the United States, had flawed measures of effectiveness and did not capture an accurate picture of the alien's crossing history, re-entry, or re-apprehension over multiple years. As a result, CBP did not have good information to make management decisions about widening, maintaining, or constricting Streamline's parameters.

Reliable and relevant feedback on program performance is critical to ensuring the Department does not invest its resources on unproductive, inefficient, or ineffective programs and initiatives.

These critical business fundamentals, unglamorous as they may be, are part of any mature and functioning government enterprise. The key to a more effective and efficient DHS is to focus on these basic government business practices. DHS achieved its unmodified opinion on the financial statements through concentrated hard work and attention to detail at every level of the Department. Similar emphasis must be placed on mastering the fundamentals of business management before the Department can fully mature as a world class organization.

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Department of Homeland Security

Appendix A
DHS Comments to the Draft Report

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

November 1, 2016

MEMORANDUM FOR: John Roth
Inspector General
Office of Inspector General

FROM: Jim H. Crumpacker, CIA, CFE
Director
Departmental GAO-OIG Liaison Office

SUBJECT: Draft OIG Report, "Major Management and Performance Challenges Facing the Department of Homeland Security" (Project No. 17-014-IQO-MGMT)

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security (DHS) appreciates having the Office of Inspector General (OIG) perspective on the most serious management and performance challenges facing the Department.

DHS is extremely proud of the open and transparent relationship it has with the OIG. As Secretary Jeh Johnson has said, "The IG serves an important role in helping the Department prevent and detect fraud, waste, mismanagement, and abuse." Within the Department, we believe that audits truly do help make us better, and thus we are committed to collaboratively working with the dedicated professionals that comprise the OIG.

For example, earlier this year the Senate Appropriations Committee praised DHS cooperation with OIG during the FY 2017 budget mark-up. Specifically, when commenting on "Inspector General Access" the Committee stated: "The Committee appreciates the leadership demonstrated by the Secretary and the Department's management team in ensuring full cooperation with OIG. Across the executive branch, the cooperation level is not as robust as it should be, as is required by law, nor as robust as it is at DHS."

By continuing to work collaboratively in an appropriate manner which respects the unique, independent status that OIG occupies within the Department, we will continue to make DHS better with each passing day. As our new mission statement reads, "With honor and integrity, we will safeguard the American people, our homeland, and our values."

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Challenge #1: Unity of Effort

As the draft report notes, "progress has been made both in tone and substance" in this area. One of Secretary's Johnson's top recommendations for the new DHS leadership team is to continue the management reform that began under his leadership, referred to as the "Unity of Effort Initiative." This initiative, established in April 2014, is intended to break silos and centralize senior decision-making at DHS. New forums of transparency include DHS-wide joint activities, such as the Senior Leaders Council, Deputy's Management Action Group, the Joint Requirements Council, and Joint Task Forces. These activities enhance pre-existing business management processes, linking strategic guidance to operational results as an enterprise, rather than as a set of Components, while also increasing Departmental effectiveness and efficiency. The Department continues to focus Unity of Effort to sustain and improve actions along the following lines of effort: (1) strengthening business management across the Department; (2) enhancing coordinated Departmental operations; (3) growing external partnerships; and (4) building a collaborative, joint DHS culture.

Challenge #2: Employee Preparedness and Morale

As the draft report notes, "The Secretary has made improving employee morale one of his top priorities and some progress has been made." Improving DHS' morale has been one of the Secretary's top priorities, as evidenced by the aggressive campaign that he and Deputy Secretary Alejandro Mayorkas conducted across our 22 Component, 232,000 person workforce. The Secretary and Deputy Secretary have led by example, in part, by traveling across the country to speak to employees and thank them for their service. The Deputy Secretary established an Employee Engagement Steering Committee, chaired by the Under Secretary for Management and made up of senior executives from across DHS who collaborate on enterprise-wide solutions and share best practices and ideas for more local solutions. DHS also empowered its Components to be innovative and proactive with their engagement initiatives thru the development of component-specific action plans, and have created a "loop of accountability" with them so that we know where they are making progress as well as where they might need support in more challenging areas. This enables Components to focus on local engagement issues targeting solutions at the lowest level appropriate in order to have the best outcomes possible.

DHS also enhanced its two-way communications so that employees have a better sense of being connected to the DHS Mission, their respective Component's mission, and to one another's work. As a result, DHS saw improvements in overall 2016 Federal Employee Viewpoint Survey (FEVS) scores and the Engagement Index in particular. After six straight years of decline, DHS FEVS scores went up three full percentage points, from 53% in 2015 to 56% this year. This is no anomaly and is regarded by the Office of Personnel Management as statistically significant. The results also compare favorably to the 1% increase across the entire Federal Government. In addition, the increased morale

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at DHS was the largest increase of any Cabinet Department our size. Components will be integrating the new FEVS results into updated action plans that will be submitted in early 2017. A new DHS-wide action plan is in development as well. The action plan is based on employee feedback from the leadership town halls, the FEVS overall, and an agency-specific question on the FEVS.

Challenge #3: Acquisition Management

As the draft report notes, DHS "has instituted major reforms to the acquisition process and has exerted significant leadership to gain control of an unruly and wasteful process." For example, major programs (Level 1 and 2) can no longer move to the next phase of the acquisition process without approved acquisition documentation. Given the significant improvements made in the areas of acquisition oversight and policy compliance and the ability to understand the cost, schedule, and performance parameters for these programs, DHS is now also applying lessons learned to non-major (Level 3) programs.

In 2015, DHS launched the Acquisition Innovations in Motion, a series of initiatives to improve communications with industry, ensure the continual improvement of business processes, and identify innovative approaches to conducting DHS procurements. In addition, DHS also institutionalized a staffing model that is now used by Component Acquisition Executives to develop staffing plans. The staffing plans identify staffing gaps and mitigation strategies to close identified gaps, which leadership monitors quarterly. Acquisition Review Boards (ARBs) review program staffing as well, to ensure this progress is sustained. When shortfalls are identified, "deep dive" reviews are conducted and recommendations made for structuring the program and mitigating critical gaps. The Acquisition Program Health Assessment was also implemented to provide early identification of critical issues within major acquisition programs. This tool is used to support monthly major acquisition program review meetings with all ARB members.

Challenge #4: Grants Management

As the draft report notes, "FEMA generally responded effectively to disasters," … but, "has not managed recovery from disasters well." It is important to also note that in FY 2016, FEMA completed a multiyear initiative to redesign the process by which it provides Public Assistance (PA) and is now implementing a new PA delivery model. The model will improve the assessment of the damage to public infrastructure, streamline and ensure the consistent application of program policy and grant requirements, and help communities recover faster following a disaster. Throughout FY 2016, FEMA's Grants Program Directorate has focused on its efforts to enhance grant oversight through the implementation of risk-based monitoring, verification of corrective actions for audit findings, draw down monitoring, and verifying compliance with grant requirements. Coupled with FEMA's ongoing multiyear Grants Management Modernization program to coordinate business approaches for more than 40 different grants and develop a single

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Information Technology platform to integrate active grant programs and unify grants management life cycles and processes, these efforts are part of the Agency's long term, comprehensive solution to address root cause problems revealed through recurring OIG recommendations. This unified capability will address deficiencies FEMA has identified in its internal controls for existing grants management and administration processes and methods.

Challenge #5: Cybersecurity

As the draft report notes, OIG has found "incremental DHS progress in establishing an enterprise-wide information security program." DHS continues to work towards ensuring the security of federal information systems, critical infrastructure, and protecting the privacy of personally identifiable information. In addition, DHS is leading the Federal Government's efforts to improve civilian cybersecurity. This effort requires a whole-of-government approach and robust collaboration with the private sector. At the same time, DHS is improving is capability to develop and share situational awareness of cyber threats and vulnerabilities while providing a baseline of security for federal civilian agencies. In addition, DHS Senior Leadership proactively conducts quarterly meetings with Component Senior Leadership to discuss the Component's status in achieving FISMA compliance targets.

During the next year, DHS expects to make important progress reinforcing DHS's role in protecting the Federal Government's information systems and the Nation's critical infrastructure. Today, 80% of our federal civilian networks have adopted EINSTEIN 3 Accelerated and we are working to get all large federal departments and agencies on board by December 30, 2016. In addition, we will continue to work with civilian Federal Government agencies to procure and deploy Continuous Diagnostics and Mitigation Phase 2 capabilities, as well as expand participation in the Enhanced Cybersecurity Services Program. Finally, DHS will continue to expand the use of Cyber Security Advisors to assist private sector and state, local, tribal, and territorial government organizations in making improvements to their cybersecurity while providing them with access to other DHS cybersecurity resources.

Challenge #6: Management Fundamentals

As noted in the draft report, "The Department has made strides in establishing its management fundamentals, including obtaining an unmodified opinion on its financial statements for the last 3 years." DHS is taking a Unity of Effort approach to sustaining its management fundamentals and improving those categories identified by OIG.

Collecting the Right Data. One of the pillars of the Unity of Effort initiative is to strengthen DHS budget and acquisition processes. To this end, DHS developed the Common Appropriations Structure (CAS), a budget framework that enables strategic and

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managerial decision making and comparability, and that clearly aligns expenses to the programs supported. As of October 1, 2016, DHS transitioned to the CAS. This new budgeting approach provides a simplified, consistent structure that allows the Department to compare like missions and activities. For example, DHS went from over 70 different appropriation types down to four common appropriations for all components. DHS has also begun to develop the "Planning, Programming, Budgeting, and Execution (PPBE) One-Number System." When fully operational in FY 2019-2020, and in conjunction with Component financial system upgrades, the One-Number system will enhance DHS and component capability for complete, on-demand resource data for annual PPBE decisions. DHS has also begun its efforts to standardize data with the DHS Accounting Classification Structure, which is a key driver for business intelligence reporting. In addition, DHS has developed maturity models to assess the effectiveness of component internal controls (financial reporting controls and information systems controls). These models use a standard set of objectives to assess risks and controls across each component; the outcomes help management prioritize remediation requirements and assign resources.

Collecting and Analyzing Cost Data. DHS recognizes the importance of accurate, timely cost data as a key component for resource allocation, and is taking steps to establish a process for routinely collecting and analyzing cost data to inform decisions regarding our major acquisitions. For example, efforts to modernize DHS financial systems provide an opportunity to put mechanisms in place to track financial execution data by major acquisition program. Moreover, as DHS matures in acquisition and financial management, we are improving our ability to integrate the purpose and use of the life cycle cost estimate (LCCE) as a program management tool. In the past year, DHS also established the training cost working group, which has developed a methodology whereby Components will be able to track and record all costs associated with training. This data will be aggregated at the Department level to provide a true picture of the resources devoted to training DHS personnel.

Performance Measurement. DHS has a robust framework and guidance for establishing performance measures to communicate the results delivered to stakeholders associated with our DHS Strategic Plan. OIG's specific references to TSA's Screening of Passengers by Observation Techniques and CBP's Streamline initiatives do not reflect the set of measures gauging our effectiveness to prevent terrorist attacks through a variety of passenger and baggage screening and vetting processes, nor the collection of measures to inform status of controlling the border.

The Department strives to continually improve gauging its effectiveness in a mission space difficult to quantify due to the nature of prevention and deterrence activities. We have a documented annual process to enhance the breadth and scope of our publically reported measure set, which is fully vetted and approved by the Office of Management and Budget. Furthermore, the Government Accountability Office, in the fall of 2015,

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cited DHS as a best practice for our methods to ensure complete and reliable information is reported to the public on our set of over 80 measures known as our strategic or Government Performance and Results Act Modernization Act measures.

Again, thank you for the opportunity to review and comment on this draft report. Technical comments were previously provided under separate cover. Please feel free to contact me if you have any questions. We look forward to working with you in the future.

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Appendix B
Report Distribution

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Acronym List

Acronyms

AFG – Assistance to Firefighters Grants
AFR – Agency Financial Report
AGA – Association of Government Accountants
APG – Agency Priority Goal
ARRA – American Recovery and Reinvestment Act
ATL – Atlanta International Airport
AUO – Administratively Uncontrollable Overtime
ASL – Automated Screening Lanes
BFS – Bureau of the Fiscal Service
CAD – Cost Analysis Division
CAP – Cross-Agency Priority
CBP – U.S. Customs and Border Protection
CBRN – Chemical, Biological, Radiological, and Nuclear
CDL – Community Disaster Loans
CDM – Continuous Diagnostics and Mitigation
CDP – Center for Domestic Preparedness
CEAR – Certificate of Excellence in Accountability Reporting
CFATS – Chemical Facility Anti-Terrorism Standards
CFO – Chief Financial Officer
CFR – Code of Federal Regulations
CGA – Capability Gap Analysis
CIO – Chief Information Officer
CLIN – Contract Line Item Number
COBRA – Consolidated Omnibus Budget Reconciliation Act of 1985
COR – Contracting Officer Representative
COTS – Commercial Off-the-Shelf
CSD – Cyber Security Division
CSRS – Civil Service Retirement System
CY – Current Year
DADLP – Disaster Assistance Direct Loan Program
DC – District of Columbia
DCIA – Debt Collection Improvement Act of 1996
DHS – Department of Homeland Security
DIEMS – Date of Initial Entry into Military Service
DMF – Death Master File
DMO – Departmental Management and Operations
DNC – Democratic National Convention
DNDO – Domestic Nuclear Detection Office
DNP – Do Not Pay
DOD – U.S. Department of Defense
DOI IBC – Department of the Interior's Interior Business Center
DOL – U.S. Department of Labor
DRAA – Disaster Relief Appropriations Act
DRF – Disaster Relief Fund
EDS – Explosive Detection System
EFSP – Emergency Food and Shelter Program
EMI – Emergency Management Institute
ERO – Enforcement and Removal Operations
FAR – Federal Acquisition Regulation
FBwT – Fund Balance with Treasury
FCRA – Federal Credit Reform Act of 1990
FECA – Federal Employees Compensation Act of 1990
FEMA – Federal Emergency Management Agency
FERS – Federal Employees Retirement System
FFMIA – Federal Financial Management Improvement Act of 1996
FISMA – Federal Information Security Management Act
FLETC – Federal Law Enforcement Training Centers
FMFIA – Federal Managers' Financial Integrity Act
FOSC – Federal On-scene Coordinators
FOUO – For Official Use Only
FPS – Federal Protective Service
FSM – Financial Systems Modernization
FtF – Freeze the Footprint
FY – Fiscal Year
GAAP – Generally Accepted Accounting Principles
GAO – U.S. Government Accountability Office
GCCF – Gulf Coast Claims Facility

GSA – General Services Administration
HSAM – Homeland Security Acquisition Manual
HSAR – Homeland Security Acquisition Regulation
HSGP – Homeland Security Grant Program
HS-STEM – Homeland Security Science, Technology, Engineering, and Mathematics
I&A – Office of Intelligence and Analysis
IAFC - International Association of Fire Chiefs
IAO – ICE Air Operations
ICE – U.S. Immigration and Customs Enforcement
IE – Intelligence Enterprise
IEFA – Immigration Examination Fee Account
IHP – Individuals and Household Programs
INA – Immigration Nationality Act
IP – Improper Payment
IP – Infrastructure Protection
IPERA – Improper Payments Elimination and Recovery Act of 2010
IPERIA – Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA – Improper Payments Information Act of 2002
IT – Information Technology
ITF – Innovation Task Force
JRC – Joint Requirements Council
JTF – Joint Task Force
LOI – Letter of Intent
MERHCF – Medicare-Eligible Retiree Health Care Fund
MGMT – Management Directorate
MHS – Military Health System
MRO – Mass Rescue Operations
MRS – Military Retirement System
MTS – Metric Tracking System
MTSA – Maritime Transportation Security Act of 2002
NCPS – National Cybersecurity Protection System
NFIP – National Flood Insurance Program
NIMS – National Incident Management System
NPFC – National Pollution Funds Center
NPPD – National Protection and Programs Directorate
NSD – Network Security Deployment
NSSE – National Special Security Events
OCIO – Office of the Chief Information Officer
OCPO – Office of the Chief Procurement Officer
OCRSO – Office of the Chief Readiness Support Office
OE – Operating Expenditures
OHA – Office of Health Affairs
OIG – Office of Inspector General
OMB – Office of Management and Budget
OM&S – Operating Materials and Supplies
OPA – Oil Pollution Act of 1990
OPEB – Other Post Retirement Benefits
OPM – Office of Personnel Management
OPS – Office of Operations Coordination
ORB – Other Retirement Benefits
OSLTF – Oil Spill Liability Trust Fund
OTA – Other Transaction Agreements
OTIA – Office of Technology Innovation and Acquisition
PARM – Program Accountability and Risk Management
PEP – Priority Enforcement Program
PP&E – Property, Plant, and Equipment
PSGP – Port Security Grant Program
Pub. L. – Public Law
PY – Prior Year
R&D – Research and Development
RM&A – Risk Management and Assurance
RMD – Removal Management Division
RNC – Republican National Convention
RtF – Reduce the Footprint
SAM – System for Award Management
SAR – Search and Rescue
SAT – Senior Assessment Team
SBR – Statement of Budgetary Resources
SF – Square Feet
SFFAS – Statement of Federal Financial Accounting Standards
SFRBTF – Sport Fish Restoration Boating Trust Fund
SHRC – Special High Risk Charter
SMC – Senior Management Council

SOS – Schedule of Spending
S&T – Science and Technology Directorate
TAFS – Treasury Account Fund Symbol
TCM – Trade Compliance Measurement
THIRA – Threat and Hazard Identification and Risk Assessment
TSA – Transportation Security Administration
TSGP – Transit Security Grants Program
TSO – Transportation Security Officer
U.S. – United States
USC – United States Code
USCG – U.S. Coast Guard
USCIS – U. S. Citizenship and Immigration Services
US&R – Urban Search & Rescue
USSS – U.S. Secret Service
VA – U.S. Department of Veterans Affairs
VP – Vendor Pay
WYO – Write Your Own

Acknowledgements

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- Within the Office of the Chief Financial Officer, the division of Financial Management is responsible for financial management policy, preparing annual financial statements and related notes and schedules, and coordinating the external audit of the Department's financial statements.

- The division of Risk Management and Assurance provides direction in the areas of internal control to support the Secretary's assurance statement, risk management, and improper payments.

- The division of Program Analysis and Evaluation conducts analysis for the Department on resource allocation issues and the measurement, reporting, and improvement of DHS performance, and coordinates the Performance Overview section of the AFR.

- The division of GAO-OIG Audit Liaison facilitates Department relationships with audit organizations and coordinates with OIG on the Management Challenges report.

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Homeland Security

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