



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.

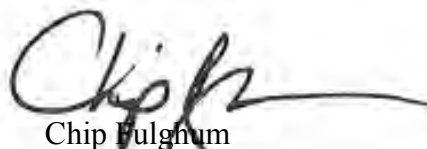
After tremendous effort and cooperation across headquarters and all our Components, DHS recently transitioned to the Common Appropriations Structure in FY 2017. This new budgeting approach will provide a simplified, consistent structure that allows the Department to compare like missions and activities 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,

A handwritten signature in black ink, appearing to read "Chip Fulghum", with a long horizontal flourish extending to the right.

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
<i>Foster a Safe and Secure Homeland</i>		
Gross Cost	\$ 35,061	\$ 34,362
Less Earned Revenue	(5,909)	(5,541)
Net Cost	29,152	28,821
<i>Enforce and Administer Our Immigration Laws</i>		
Gross Cost	11,133	10,211
Less Earned Revenue	(3,923)	(3,710)
Net Cost	7,210	6,501
<i>Strengthen National Preparedness and Resilience</i>		
Gross Cost	19,304	14,750
Less Earned Revenue	(4,553)	(4,157)
Net Cost	14,751	10,593
<i>Mature and Strengthen Homeland Security</i>		
Gross Cost	3,906	3,475
Less Earned Revenue	(114)	(109)
Net Cost	3,792	3,366
<i>Total Department of Homeland Security</i>		
Gross Cost	69,404	62,798
Less Earned Revenue	(14,499)	(13,517)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB	54,905	49,281
Assumption Changes	234	4,046
(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			Consolidated Total
	Funds from Dedicated Collections	All Other Funds	Eliminations	
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			Consolidated Total
	Funds from Dedicated Collections	All Other Funds	Eliminations	
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	<u>\$ 43,781</u>	<u>\$ 5</u>	<u>\$ 41,052</u>	<u>\$ 7</u>
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	<u>\$ 58,650</u>	<u>\$ (4)</u>	<u>\$ 57,974</u>	<u>\$ (62)</u>
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	<u>\$ 46,917</u>	<u>\$ 28</u>	<u>\$ 45,285</u>	<u>\$ (77)</u>

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

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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 Components¹:

- **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.

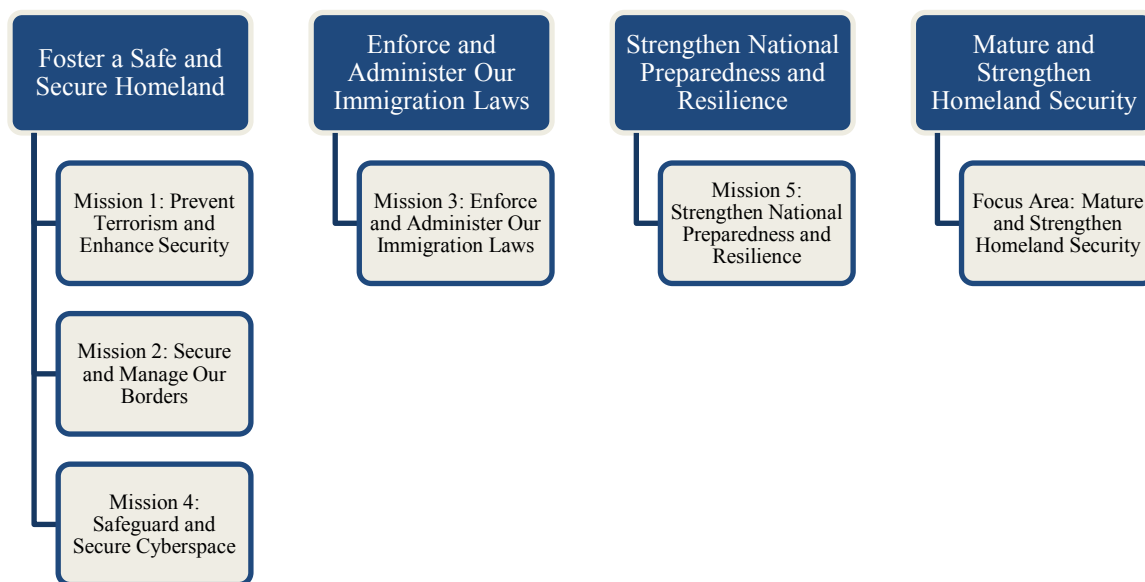
Transactions and balances among the Department's Components have been eliminated in the consolidated presentation of the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and the Statements of Custodial Activity. Intradepartmental activity reported in a fund from dedicated 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 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	<u>1,852</u>	<u>1,700</u>
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	<u>3,088</u>	<u>3,289</u>
Total Non-Entity Assets	4,940	4,989
Total Entity Assets	92,690	90,570
Total Assets	<u>\$ 97,630</u>	<u>\$ 95,559</u>

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	<u>\$ 58,997</u>	<u>\$ 59,553</u>

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):

	<u>2016</u>	<u>2015</u>
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	<u>57,264</u>	<u>57,281</u>
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	<u>\$ 58,997</u>	<u>\$ 59,553</u>

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

Financial Information

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
<hr/>				
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 Glyngo, 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	<u>543</u>	<u>806</u>
Public:		
Advances and Prepayments	690	685
Other Assets	1	-
Total Public	<u>691</u>	<u>685</u>
Total Other Assets	<u><u>\$ 1,234</u></u>	<u><u>\$ 1,491</u></u>

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	<u>26,612</u>	<u>26,779</u>
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	<u>60,319</u>	<u>58,597</u>
Total Liabilities Not Covered by Budgetary Resources	86,931	85,376
Liabilities Covered by Budgetary Resources	14,579	11,248
Total Liabilities	<u>\$ 101,510</u>	<u>\$ 96,624</u>

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).

	Accrued Liabilities	Estimated Range of Loss	
		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 criteria for determining a fund from dedicated collections: 1) a statute committing the Federal Government to use specifically identified revenue and/or other financing sources that are originally provided to the Federal Government by a non-federal source only for designated activities, benefits, or purposes; 2) explicit authority for the fund to retain revenue and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and 3) a requirement to account for and report on the receipt, use, and retention of the revenue and/or other financing sources that distinguished the fund from the Federal Government's general revenue.

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

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

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

Funds from Dedicated Collections (in millions) (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
<i>Foster a Safe and Secure Homeland</i>									
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
<i>Enforce and Administer Our Immigration Laws</i>									
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
<i>Strengthen National Preparedness and Resilience</i>									
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
<i>Mature and Strengthen Homeland Security</i>									
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
<i>Total Department of Homeland Security</i>									
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
<i>Foster a Safe & Secure Homeland</i>									
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
<i>Enforce and Administer Our Immigration Laws</i>									
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
<i>Strengthen National Preparedness and Resilience</i>									
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
<i>Mature and Strengthen Homeland Security</i>									
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
<i>Total Department of Homeland Security</i>									
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 CDLPs 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.

DNDO

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.

USCG

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, Electro-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	<u>\$ 105</u>	<u>\$ 104</u>	<u>\$ 108</u>	<u>\$ 106</u>	<u>\$ 107</u>

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.Office@PublicAffairs@oig.dhs.gov

www.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.

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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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20008

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.



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	<i>Federal Managers' Financial Integrity Act of 1982</i>
H	<i>Single Audit Act Amendments of 1996</i>
I	<i>Antideficiency Act</i>
J	<i>Federal Financial Management Improvement Act of 1996</i>

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.

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.

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 FFMA 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

Independent Auditors' Report
Exhibit I – Material Weaknesses

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

Independent Auditors' Report
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.

Independent Auditors' Report
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 FFMA 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

Independent Auditors' Report
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.

Independent Auditors' Report
Exhibit I – Material Weaknesses

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.

Independent Auditors' Report
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,

Independent Auditors' Report
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.

Independent Auditors' Report
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

Independent Auditors' Report
Exhibit II – Significant Deficiencies

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

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.

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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.

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Index of Financial Reporting and Internal Control Criteria
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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
<i>Component Requirements Guide for Financial Reporting in FY 2015, Version 3.0, April 2015</i>	Section 3.1	I-B
	Section 7.5	
	Section 8.16	
	Section 9.9	
	Section 9.10	
	Section 9.9	I-C
	Section 9.10	
	Section 8.16	II-D
Department of Homeland Security Management Directive 125-02, <i>Interagency Agreements</i>	Section VI	II-D
Department of Homeland Security Management Directive 1104, <i>Fund Balance with Treasury</i>	Section VI	I-B
FASAB Technical Release 14: <i>Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment</i>	Paragraph 10	I-B, I-C
Federal Acquisition Regulation (FAR)	§4.804	II-D

Criteria I

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Criteria	Reference	Report Exhibit
<i>Federal Financial Management Improvement Act of 1996</i>	Section 803	I-B, I-C
<i>Federal Managers' Financial Integrity Act of 1952</i>	Section 2	I-B, II-D, II-G
<i>Financial Resource Management Manual (FRMM COMDTINST M7100.3E), September 2013</i>	Section 7.12 Section 7.13 Section 10.2 Section 10.3	I-B, I-C
<i>GAO Standards for Internal Control in the Federal Government</i>	Principle 4 Principle 7 Principle 10 Principle 12	I-B, II-D, II-F
<i>GAO FINANCIAL MANAGEMENT FFMLA Implementation Critical for Federal Accountability (GAO-02-29)</i>	Page 1, Paragraph 2	I-B
<i>GAO Principles of Federal Appropriations Law, Second Edition, Volume II (GAO-OGC-92-13)</i>	A. Introduction	II-D
<i>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</i>	Section VII	II-D
<i>OMB Circular No. A-11, Preparation, Submission, and Execution of the Budget, July 2013</i>	Section 31.5 Appendix B	IB, I-C
<i>OMB Circular No. A-123, Management's Responsibility for Internal Control, Revised</i>	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
<i>OMB Circular No. A-127, Financial Management Systems, Revised</i>	Section 8	I-B

Criteria 2

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Index of Financial Reporting and Internal Control Criteria
(Listed Alphabetically by Criteria Source)**

Criteria	Reference	Report Exhibit
OMB Circular No. A-133, <i>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</i>	Subpart B	II-F
	Subpart D	
OMB Circular No. A-136, <i>Financial Reporting Requirements</i> , Revised	Section V	I-B
OMB Memorandum M-04-11, <i>Service Organization Audits</i>	Paragraph 1	I-B
<i>Single Audit Act Amendments of 1996</i>	Section 7502	II-F
Statement of Federal Financial Accounting Standards 1: <i>Accounting for Selected Assets and Liabilities</i>	Paragraphs 39, 41, 45, 77	I-B
Statement of Federal Financial Accounting Standards 3: <i>Accounting for Inventory and Related Property</i>	Summary, Paragraph 1, 36, 37, 39	I-B, I-C
Statement of Federal Financial Accounting Standards 5: <i>Accounting for Liabilities of The Federal Government</i>	Paragraph 19	I-B
Statement of Federal Financial Accounting Standards 6: <i>Accounting for Property, Plant, and Equipment</i>	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: <i>Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting</i>	Paragraph 79	II-D
Statement of Federal Financial Accounting Standards 10: <i>Accounting for Internal Use Software</i>	Paragraphs 16, 18, 20	I-B, I-C
Statement of Federal Financial Accounting Standards 29: <i>Heritage Assets and Stewardship Land</i>	Paragraph 25	I-C
Statement of Federal Financial Accounting Standards 33: <i>Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates</i>	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: <i>Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23</i>	SFFAS 6 - Paragraph 40 SFFAS 23 - Paragraph 16	I-B, I-C
Statement of Federal Financial Accounting Standards 39: <i>Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards</i>	Paragraph 11, 12	I-B
Transportation Security Administration, Internal Standard Operating Procedure, <i>Manual Processing of Non-CIMS Awards</i>	Section 5	II-D
Transportation Security Administration, Internal Standard Operating Procedure, <i>Processing Prior Year Adjustments (PYA) to Budgetary Resources</i>	Section 5	II-D
Transportation Security Administration, Internal Standard Operating Procedure, <i>UDO Verification and Validation</i>	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 TEM 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, <i>Cash Analysis Reporting SOP</i>	Section II, Part 3	II-F
United States Coast Guard Finance Center, Reports and Reconciliation Unit, <i>General IPAC Suspense Spreading Procedures</i>	Section 6.2	I-B
United States Coast Guard Finance Center, <i>Standard Operating Procedures Manual</i>	Chapter 12, Section A	I-B
United States Coast Guard <i>Environmental Liabilities Process Guide</i>	Section 2.3.3	I-B
United States Coast Guard, <i>Procedure for Physical Inventory and Year-End Certification of Personal Property</i>	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, <i>Procedure for Physical Inventory of Real Property</i>	Section 3.2	I-C
United States Coast Guard, National Pollution Fund Center Instruction 16451.2: <i>Technical Operating Procedures for Resource Documentation under The Oil Pollution Act of 1990</i>	Chapter 2, Section B	I-B
United States Coast Guard, National Pollution Fund Center, <i>Allowance for Doubtful Accounts Annual Rate Calculation</i>	Step 8	I-B
United States Coast Guard, <i>Procedures for the Accounts Payable Accrual Estimate and Validation</i>	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


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



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Appendix B
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Department of Homeland Security

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